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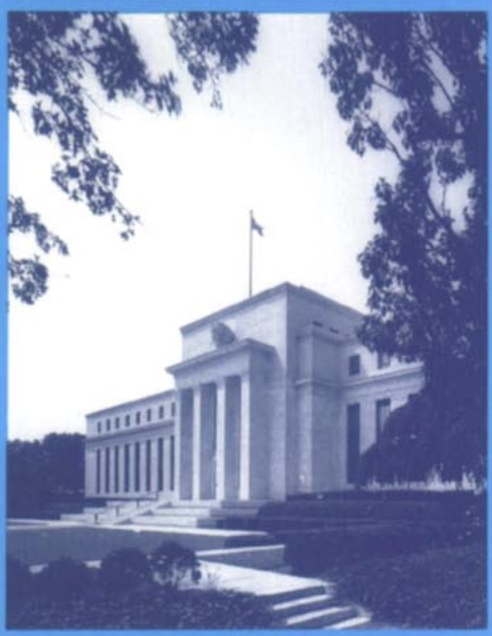

Old Banking Myths

The Cambodian Experiment in Retrospect

Where Will It All End?

Private Enterprise in Poland

MAY 1989

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PERSPECTIVE

Property and Welfare

If private property rights are sound principles of a just society, then the welfare state, since it forces people to part with what is theirs even against their own choices, is unjust. To put it simply, it perpetrates legalized theft by taking from some persons what belongs to them and making it available, without the consent of the owner, to others. While the objective the government may serve by this could be justifiable and even noble, the means used to promote that objective are plainly criminal.

Of course, one can ask, how else might those objectives be achieved? The answer is, "In millions of possible peaceful ways, but not by means of the violation of the rights of others." We are not to be made slaves even with the excuse that the goals of our slavery are laudable. We are not to be deprived of our honest holdings even if we do not use them as generously and wisely as others may have discerned we ought to. Most of all, we are not to be made the subjects of kings, politburos, or majorities who devise the objectives of our lives for us without our consent. What we do to solve our problems—those dire ones that lead some very decent people to yield to the idea of the welfare state—is a matter for us to discover and implement as diligently as possible.

—Tibor R. Machan
Auburn University

The Educational Challenge

Education has always been a major part of the American Dream. Originally schools were private and attendance voluntary. Increasingly, government came to play a larger role, mandating compulsory education, funding education, establishing and administering schools.

We are proud, and with good reason, of the widespread availability of education, but, unfortunately, in recent years our educational record has tarnished. Parents complain of declining quality. Educators complain of the atmosphere in which they are required to teach. Students complain of boredom. Taxpayers complain of growing costs. Hardly anyone

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maintains that the schools are giving young people the tools they must have for the year 2000.

Public education is, I fear, suffering from the same malady that afflicts so many other government programs. As Justice Louis Brandeis wrote in 1928, "The greater dangers to liberty lurk in insidious encroachment by men of zeal, well meaning but without understanding."

The malady is one of an overgoverned society. In education it has taken the form of denying parents control over the type of education their children receive. The increasing role of government has adversely affected education at all levels. It has fostered an atmosphere that both dedicated teachers and serious students find inimical to intellectual development.

Now, more than ever, we must be able to provide the educator with the necessary tools for presenting in an accurate way the ever-important concepts of a free society. And, in so doing, we must not forget the cultural and historical setting for the development of a market society. It is not enough to understand the relationship of supply and demand. Our teachers must be able to convey to our youth through historical understanding the necessity of a free society in the world in which we live.

The challenge we face is clear. Americans must do what is necessary to re-establish the economic base of a free society. The problems have been identified, solutions proposed . . . success now depends on the will.

—Sheridan Nichols
American Enterprise Forum

The Uninsured

An estimated 37 million Americans lack health insurance, up 25 percent since 1980. Why are so many people going without medical coverage?

According to a study written by John Goodman and Gerald Musgrave for the National Center for Policy Analysis, state regulations have priced many Americans out of the insurance market. Recently enacted laws require many forms of coverage that a lot of people don't want and can't afford. For example:

"Thirty-seven states require health insurance coverage for the services of chiropractors, three states mandate coverage for acupuncture, and two states require coverage for naturopaths (who specialize in prescribing herbs).

"At least 13 states limit the ability of insurers to avoid covering people who have AIDS, or who have a high risk of getting AIDS.

"Laws in 40 states mandate coverage for alcoholism, 20 states mandate coverage for drug abuse, and 30 states require coverage for mental illness."

In trying to expand benefits, state legislators have hurt the very people who can least afford them.

—Brian Summers

What Protection Teaches

Protective tariffs are as much applications of force as are blockading squadrons, and their object is the same—to prevent trade. The difference between the two is that blockading squadrons are a means whereby nations seek to prevent their enemies from trading; protective tariffs are a means whereby nations attempt to prevent their own people from trading. What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war.

—Henry George,
Protection or Free Trade

Reader's Digest Reprints Education Article

"Why College Costs Are Rising," by John Hood, has been reprinted in the April 1989 *Reader's Digest*. This article originally appeared in the November 1988 issue of *The Freeman*.

We have extra copies of the *Digest* version of Mr. Hood's article. Please write to FEE, stating the quantity you'd like.

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The Cambodian Experiment in Retrospect

by Morgan O. Reynolds

On January 7, 1979, the Vietnamese communists marched into Phnom Penh and replaced the Khmer Rouge nightmare with a more familiar brand of tyranny. Western journalists and scholars eventually reported the chaos, famine, and genocide that brutalized Cambodia from 1975-1979, but something is still missing—a coherent explanation for the tragedy. Like the fiasco in Jonestown, Guyana, a socialist experiment gone so dramatically awry seems to be dismissed as crazy, fanatical, or insane and then quickly forgotten.

But was it all so incomprehensible, so hard to decipher? No. A close inspection reveals nothing illogical or irrational about the Khmer Rouge and Cambodia, *given their goals*. The episode was a conscious ideological effort to completely replace the market economy with socialism. To be sure, it was much more determined and extreme than most socialist efforts, but this only makes the Cambodian experiment all the more essential to understand as an example of the pre-eminent issue of our age—socialism versus capitalism, collectivism versus individualism, death versus life. Originally, the word "socialism" was coined to express opposition to individualism. The brutal attempts of the Khmer Rouge and other communists to suppress all traces of individuality are not irrational but quite predictable and intelligible.

Professor Reynolds teaches in the economics department at Texas A & M University.

Socialism in all its variants has been widely associated with economic failure, yet two episodes stand out as virtual laboratory experiments in the perennial war on commercial activity—Lenin's effort of 1918-1921 and the Cambodian disaster of 1975-1979. The parallels are impressive.

Early Western news accounts described the Bolsheviks' economic policies as silly and irrational, although the 1917 revolution had followed 70 years of socialist theorizing, agitation, and the famed declaration of Marx and Engels in *The Communist Manifesto* of 1848 that "The theory of the Communists may be summed up in the single sentence: Abolition of private property." The idea of central planning grew from the socialists' desire to eliminate decentralized ownership of the means of production and the "chaotic" market economy in favor of socialization of the means of production and the application of science to society, thereby allowing man consciously to direct history in any manner desired.

The Destruction of Trade

Economic historians—e.g., Boris Brutzkus (1935), Lancelot Lawton (1932), Alexander Baykov (1947), T. J. B. Hoff (1949), Paul Craig Roberts (1971)—agree that the Bolshevik program from 1918 to March 1921 was a conscious effort, however muddled, to replace the market economy with a system of planned, non-

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transferable, in-kind assignments of inputs and outputs. There was a deliberate destruction of commercial trade and abolition of money and banking rather than a war-caused "breakdown of normal trade." The economy—voluntary social cooperation—came to a virtual halt under state restrictions and direction. Production became so disorganized and anarchic that Lenin abandoned the planning effort to preserve his power. Famine took the lives of an estimated 5.5 million people before some 10 million were saved by relief from the capitalist West. Peasant uprisings and the Kronstadt rebellion in February 1921 forcibly brought home growing domestic discontent to the Bolsheviks. Workers were particularly outraged by the regime's effort to prevent individuals from supplying themselves with necessities.

By March 15, 1921, Lenin had seen enough. He decided that communism could only be built upon the rationality of the bourgeois economy: "Whoever dreams of a mythical communism should be driven from every business conference, and only those should be allowed to remain who know how to get things done with the remnants of capitalism." Further, Lenin said, "We are very much to blame for having gone too far, we overdid the nationalization of industry and trade." Abandoning the original vision of socialism posed doctrinal difficulties for Lenin, but new words ushered in a New Economic Policy (NEP)—meaning private property and the market economy were allowed partial operation, especially in agriculture and trade—and recovery quickly followed.

Like the inexperienced intellectual V. I. Lenin, Khmer Rouge leaders fervently embraced Marxist doctrine and tried valiantly to implement it. A docile nation composed 90 percent of peasants in an apparently simple economy seemed an ideal place for true socialism to "work." Yet the dream of a blueprinted, harmonious society should be traced back to Plato's *Republic* rather than to Marx and Lenin:

> . . . what has been said about the State and the government is not a dream, and although difficult not impossible . . . when true philosophers are born in the reigning family in a state, one or more of them, despising the honors of this present world which they deem mean and worthless . . . will begin by sending out into the country all the inhabitants of the city who are more than ten years old, and will take possession of their children, who will be unaffected by the habits of their parents; these they will train in their own habits and laws, which will be such as we have described: and in this way the State and constitution of which we were speaking will soonest and most easily attain happiness, and the nation which has such a constitution will gain most.

Each Khmer Rouge leader was from an advantaged family, each studied law or economics in Paris in the 1950s, each embraced Marxism-communism as a means to save the people from capitalist exploitation, and each wrote tracts and dissertations which announced his ideological dedication and intentions. Like Lenin and his fellow armchair intellectuals, none of the Cambodian philosopher-kings ever did manual labor for a living or managed any enterprise.

Once in power the Khmer Rouge leaders refused, in contrast to Lenin, to temporize in order to preserve their political power and revolution. Full speed ahead, the Khmer Rouge leaders were undeterred by early disaster; they proceeded with their quest, although in 1978 Pol Pot admitted, "We are building socialism without a model." Anticipating Pol Pot's problem, economist Ludwig von Mises argued in 1920 that socialism could not begin to work in a remotely efficient manner under real world conditions of continual change, and he added, "Historically, human rationality is a development of economic life. Could it then obtain when divorced therefrom?"

The Khmer Rouge deliberately isolated the renamed "Democratic Kampuchea" from the markets of the outside world and destroyed all vestiges of the old days in favor of starting afresh: the government acted to abolish money, all private property, exchange, and therefore prices, and to move labor from the cities to rice production as commanded by "Angka" (the organization). By abandoning cities the program eliminated Lenin's problem of supplying food to the cities, which supposedly had been the source of "class conflict." Of an estimated 7-8 million inhabitants in 1970, an estimated 2-3 million were killed or died of starvation, mass suicide, and disease after almost four years of

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Khmer Rouge rule. Combat troops never exceeded an estimated 70,000 or 1 percent of the population, a macabre confirmation of docility and political susceptibility to collectivism. Even though the Khmer Rouge earlier had followed the same policies in the areas under their control, and intellectuals since Plato have advocated a utopia designed and ordered by a single will, the world expressed amazement at events in Cambodia.

Many Western journalists, in contrast to revolutionaries, do not treat ideas seriously, and therefore fail to recognize the power of ideas in action. They don't realize that chaos and brutality must accompany a determined effort to implement what economists Mises and Hayek called an impossible or unworkable economic scheme, namely, thorough-going socialism. For example, Sydney Schanberg in *The Death and Life of Dith Pran*—the basis for the film *The Killing Fields*—puzzles over the words used by the regime: *angka* = the organization, *opakar* = people or instruments, *Khmer* = nation or machine. Uncomprehending, Schanberg calls the terminology strange for a government trying to erase the colonial past.

Another writer, Craig Etcheson (1984), points out that the revolution was so ultra-radical that even the communists were appalled. Yet Etcheson is inconsistent in terming market phenomena like rent and credit archaic while calling the Khmer Rouge's elimination of money, banking, and other financial institutions "backward." Other academic writers blankly decry the lack of bureaucratic information about the Khmer Rouge, vainly hoping that documents alone might tell them why certain policies were put into effect and why others changed at certain times.

Private property, money, prices, unequal rewards, and commerce often offend intellectuals. They yearn for an alternative, an economic system where commercial institutions are suppressed or controlled, if not totally eliminated. They sympathize with vague ideals about an earthly paradise built on planning, socialism, and communism. At a minimum, they oppose markets and capitalism. As a result, they remain blind to the cause of the events they so poignantly relate about Cambodia.

A Descent into Barbarism

Economists still debate whether rational economic management of a complex society based on monopoly control of the means of production under a single mind or committee can work in a tolerably efficient fashion. While a single case is not decisive, the Cambodian experience strongly suggests that it cannot work. Obliteration of private ownership, market exchange, and prices threatens civilization because without the exchange mechanism, the economy and, therefore, society collapses. Productive coordination of human effort is impossible without trade in productive assets (capital markets). There is no demonstrated, superior alternative to the price system and Wall Street. Though most intellectuals would recoil from the idea, a logical corollary is that each step away from capitalism (individualism, private ownership, and limited government) is a descent into barbarism, degradation, and irrationality.

Experiments in unalloyed socialism have quickly ended in failure. This explains why every communist government, including Heng Samrin's Post-Khmer Rouge regime, is "advancing to socialism" but never reaches it. The bones of millions of Cambodians suggest why living human beings will never reach socialism. □

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Old Banking Myths

by Hans F. Sennholz

Many banks and thrifts are tottering on the brink of bankruptcy. The deficit in the fund that insures deposits in savings institutions more than doubled last year, and continues to rise. Government action may well be needed again to sustain the structure. Even the future of mighty city banks is in doubt: billion-dollar loans have been made to third-world countries that have neither the ability nor the intention to repay.

To explain such ominous happenings in American finance is to search for the ideas that are guiding Americans in their financial matters. Ideas and images in men's minds are the invisible powers that govern them. The financial structure, in disrepair and disrepute, is the logical outcome of financial thought that places legislators and regulators in the center of things. It rests on their wisdom and discretion, and relies primarily on political force rather than individual freedom. It is a precarious system that builds on government insurance and government guarantees and, in final analysis, depends on monopoly money and legal tender force. It is a discredited system that is inflicting immeasurable harm on many people.

To rebuild the financial structure is to identify and discard the features that discredit it, and to lay a new foundation. It is to explode the erroneous thought that permeates it, and to dispel old myths that guide it. It is to refute the fictions and fallacies that have created the banking myths, especially the following:

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on monetary affairs.

Myth 1: Banking is inherently unstable when left free and unhampered.

Although economists disagree on many things, most see eye to eye on their acceptance of political control over money and banking. Being accustomed to banking legislation and regulation, and addicted to a money monopoly and legal tender force, they rarely spare a thought for individual freedom in such matters. Most economists pin their hope on legislators and put their trust in regulators who are to safeguard the system.

The deep-seated aversion to individual freedom does not spring from any explicit theory that pinpoints the shortcomings of freedom, nor does it rest on any consistent school of banking thought that elaborates specific faults. It springs from intellectual lethargy and a long tradition of political control over money and banking. "We've had it so long. It's the American way." This is the most convenient, although rarely enunciated, justification for government control. These economists invariably point at American money and banking before the Civil War which, in their judgment, confirms their belief. In particular, they cite the "Free Banking Era" of 1838-1860 as a frightening example of turbulent banking and, therefore, applaud the legislation that strengthened the role of government.[1]

In reality, the instability experienced during the Free Banking Era was not caused by anything inherent in banking, but resulted from extensive political intervention. At no time in American history has banking been free of onerous legislation and regulation. The "free banking" law, which New York State adopted

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in 1838 and many other states emulated thereafter, did not establish free banking; it merely ended the creation of banks by special charter. "Free banking" acts were little more than "incorporation acts" that invited applicants to seek charters from the administration rather than the legislature. They did not repeal burdensome statutory provisions and regulatory directives. In fact, they added a few, especially for note issues by these "free" banks.

"Free" bank notes were printed by the offices of the state comptrollers. To obtain these notes, a New York bank had to deposit with the comptroller an equivalent value of (1) U.S. Treasury obligations, state bonds, or bonds of other states approved by the comptroller, or (2) mortgages on improved real estate with a 50 percent or better equity. Severe restrictions curtailed the issue of mortgage notes, which limited their volume rather significantly. State bonds became the primary collateral for note issue. Most states and, eventually, the federal government (in the National Banking Act of 1863) emulated the system.[2]

Many banks that failed during the "Free Banking Era" went to ruin when the states defaulted on their debts. Florida, Mississippi, Arkansas, and Indiana defaulted in 1841, followed by Illinois, Maryland, Michigan, Pennsylvania, and Louisiana in 1842.[3] Mississippi, Arkansas, and Florida even repudiated their debt. The state governments continued their operations in debt default; the banks that were built on the obligations of those states lacked such a privilege.

State bonds were the major component of free bank portfolios, which exposed the banks to the ever-present risk of rising interest rates and declining state bond prices. When state governments suffered budgetary deficits, interest rates on state obligations tended to rise, which immediately cast doubt on the banks that carried the debt. State politics obviously played a major role in the life and death of a bank.

In several states with free-banking laws, the stated value of eligible government bonds exceeded their market value, which not only invited multiple credit expansion but also bred fraud and corruption. With government bonds selling at a discount, bankers could use them at face value, issue notes, then buy more discount bonds, and issue even more notes. For example, with government bonds selling at 80 percent of par, an unscrupulous operator could purchase a $1,000 bond for just $800, issue $1,000 worth of notes, purchase $1,250 in face-value bonds, issue another $1,250 worth of notes, buy more bonds and issue more notes, and finally acquire valuable assets, and abscond with them, in "wildcat banking" fashion. Obviously, law and regulation bred the scheme and led to instability.

When compared with many other countries, the total number of local banks in the U.S. became rather large, which points to yet another important source of bank disorder: the restriction of banks to unit size. Many states prohibited intrastate branch banking as well as banking across state lines, which prevented much diversification, and limited lending and borrowing to one location. Unit banking tied the solvency of a bank to the fortunes of the town in which it happened to be located, and to the commerce and industry that sustained the town. As a town prospered or decayed, so did the bank that served it.

Further Limitations

Legislators and regulators further circumscribed banking with onerous charter requirements. To obtain a bank charter, an individual had to petition the state banking authority and, among other requirements, bring proof of a minimum capital of $10,000 or $20,000, or even $50,000, as was later required for national banks in communities with populations under 6,000, or $100,000 for national banks in larger cities. Most Americans with low incomes and little material wealth were barred from entering the banking business. The restrictions obviously kept the industry smaller than it otherwise would have been, and bred countless local banking monopolies, especially in rural communities. In most of their money and credit transactions the American people became dependent upon a local bank. In many a town in territories just opened up they depended on a single bank if there was one at all.[4]

During the "Free Banking Era" the banks obviously were not free; they were curious combinations of public enterprise and special

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interest. No matter how free other industries may have been throughout this period, the principles of the market order never took hold in the fields of money and banking. Motivated by the popular hostility against money lenders and the age-old belief in the desirability of ever more money, politicians and officials carefully regulated all important aspects of money and banking and protected their charges from the full severity of commercial and civil law. In periods of financial crisis many states permitted banks to flout their contractual obligations, to suspend payment of specie, or resort to makeshift devices in order to avoid payment on demand. Such practices did not make for a sound and reliable banking system.[5]

Myth 2: Banks tend to charge usurious rates of interest, contrary to the commands of charity, justice, and natural law.

The myth of banking instability receives strong support from the ancient usury doctrine, which led authorities to outlaw interest-taking altogether or at least to set maximum rates. In their zeal for preventing usurious interest-taking, many regulators set their maxima at levels far below free market rates, thereby curtailing lending or preventing it altogether. Banks, which seek to bring lenders and borrowers together, cannot serve them properly with government stipulating the rates. Usury laws are price-control laws; they disrupt markets, mislead production, cause shortages, and waste economic resources. Yet, they have been popular throughout the ages because money lending was believed to have evil effects on the community. Even Adam Smith endorsed legislation that put a ceiling on interest rates.[6] His contemporary, Jeremy Bentham, promptly took him to task in a famous essay, *Defense of Usury,*[7] that made a strong plea for individual freedom in determining the terms of a loan.

Throughout U.S. history the states set usury ceilings to interest-taking. In many cases, especially at the frontier, they set maxima far below the rates that would have prevailed if there had been freedom. Consequently, capital markets were crippled and sound banking was hampered. The institutions that emerged kept their interest charges at or below the legal limit and, to remain profitable under given conditions, issued money substitutes in the form of unbacked notes. Circumscribed by usury legislation, they printed bank notes against which they maintained fractional reserves in legal money—silver or gold. Unfortunately, fractional reserves always are an invitation for disaster as soon as the note holders lose confidence in the solvency of the issuer.

Especially in the West, where the need for capital was enormous and the credit risk very great, the maximum rates of 6 to 10 percent as set by state laws constituted a severe impediment to the banking business. At the frontier the debtor's risk component alone often amounted to a multiple of the ceiling rates, which made most lending clearly illogical. When market conditions call for rates of 10 to 20 percent while the usury rates are set at 6, 7, or 8 percent, most lending comes to a halt. As the courts endeavored to enforce the laws with fervor and severity, the banks were forced to choose between closing their doors or issuing unbacked notes at permissible rates of interest. Many chose to issue notes and face the risk inherent in unbacked issue and fractional reserves.

The precarious situation of American banking today springs from similar causes. The 1970s were years of accelerating inflation and soaring interest rates. Commercial banks welcomed the abundance of credit, which meant more bank loans and higher profits. Yet, in some states, lending ground to a halt as the market rates of interest reached usury levels and were barred from going higher. Under such conditions financial institutions readily placed their funds in other states and other countries without usury restrictions. A bank in Pennsylvania could freely place its funds in Mexico at market rates, but could not legally do so in Pennsylvania.[8]

Many savings and loan associations are sharing the fate of the big city banks. Some can be charged with making poor loans; yet, most lived faithfully by the strictures of legislation and regulation, financing the construction and purchase of homes through mortgage loans. They, nevertheless, are in dire straits because inflation together with regulation is inflicting

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Federal Reserve Building, Washington, D.C.

painful losses. Until 1981, legislation narrowly circumscribed the rates of interest they were permitted to pay their passbook depositors while inflation raised the market rates far above the permissible rates, which lifted them right out of the competition for funds. They lost many billions of dollars of deposits, which sought higher interest rates in money-market funds and other instruments. To survive the painful drain of savings and safeguard their liquidity, the thrifts then had to "purchase" funds through the sale of certificates at interest rates far above those earned on old mortgage loans. Compounding the difficulties, the market value of old loans fell precipitously as interest rates rose to new highs.

In turmoil and change the Depository Institutions Deregulation and Monetary Control Act of 1980 sought to give relief to the ailing industry. It relaxed some controls over banking and tightened others. It repealed old interest-rate legislation, which was playing havoc with banks and thrifts. It made monetary control more comprehensive and effective, and sought to solve the problem of declining membership in the Federal Reserve System. In particular, the law authorized banks and thrift institutions to offer interest on checking accounts starting at the beginning of 1981. It introduced so-called NOW accounts (negotiable order of withdrawal accounts), which were to make banks and thrifts more competitive with money market funds. Moreover, the law phased out Regulation Q, the ceiling on interest rates payable on time deposits, and set aside the usury ceilings that many states had imposed on mortgage loans as well as business and agricultural loans. The new freedom to pay market rates of interest was to give relief to a suffering industry. Unfortunately, it came too late for many institutions that had suffered so long in the vice of inflation and usury legislation.

Myth 3: Effective economic policy requires government control over banks.

In recent years the old doctrines of banking instability and usurious interest rates have found a new ally in the doctrine of government responsibility for full employment and eco-

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nomic growth. The old and the new have joined forces to deny freedom to banking and confirm government as a money monopolist and banking regulator. Government is held responsible for economic prosperity and full employment, and, therefore, is expected to direct, control, and manage the national economy through the Treasury, the central bank, and numerous other agencies. Yet, it is prevented from doing so effectively, we are told, if it lacks control over all issuers of money, in particular all banking institutions. Money balances must be concentrated in narrowly defined banks so that the total stock of money can be properly guarded and managed.

Most economists readily accept this dogma; they are convinced that legislators and officials must manage the people's money. In the footsteps of John Maynard Keynes, mainstream economists hold government solely responsible for prosperity and full employment and, therefore, expect it to manipulate and fine-tune money and banking. Monetarists contend that government must increase the stock of money at a steady rate, in order to achieve economic stability and steady growth. And supply-siders call on monetary authorities to manage the people's money, keeping an eye on gold. Only economists in the Austrian tradition reject all such notions as myths or fictions that contribute so much to the sorry state of banking today. They reject not only the popular acclaim of government control over the stock of money, but also the very foundation of the Keynesian structure, the "full-employment policy."[9]

More Regulation Ahead?

It is unlikely that the Austrian explanations and recommendations will prevail in the coming years of savings and loan disasters and banking crises. The doctrines of political power and wisdom in all matters of money and finance are deeply imbedded in the American frame of reference and discourse. This is why we must brace for more efforts at regulation. Surely, some controls may be relaxed as others are tightened, reacting continuously to an unsatisfactory state of affairs.

Politicians and regulators can be expected to lay the blame on the remaining margin of individual freedom however small it may be. They will seek to tighten the controls as the losses mount and the U.S. Government is called upon to honor its guarantees. Surely, he who pays the bill will want to have a say on how it may be incurred. This is why the federal government can be expected to tighten its grip on American banking and finance. And, once again, it may confirm the old observation that one government intervention tends to breed another and ultimately leads to all-round regimentation.

Yet, no matter how dark our financial future may look, individual freedom is alive and well in many other parts of the world. It bestows its largess to any country with the wisdom and courage to pursue it. Its light is shining brightly all over the world, visible to all who can see. Having suffered staggering losses and economic stagnation, and having tried every conceivable highway and byway of the political command system, we do not doubt that, in the end, we, too, will see the light again and make it our guiding beacon. □

1. Paul Studenski and Herman E. Kroos, *Financial History of the United States* (New York: McGraw-Hill Book Co., 1952), p. 114; Bray Hammond, *Banks and Politics in America* (Princeton, N.J.: Princeton University Press, 1957), pp. 572-604; Major B. Foster, Raymond Rodgers, Jules I. Bogen, Marcus Nadler, *Money and Banking*, Fourth Edition (New York: Prentice-Hall, 1955), pp. 97-98; Gerald C. Fisher, *American Banking Structure* (New York: Columbia University Press, 1968), p. 181; Charles L. Prather, *Money and Banking*, Sixth Edition (Homewood, Ill.: Richard D. Irwin, 1957), p. 163 *et seq.*

2. Hugh Rockoff, *The Free Banking Era: A Re-examination* (New York: Arno Press, 1975), pp. 125-130; also Robert G. King, "On the Economics of Private Money," *Journal of Monetary Economics*, July 1983, pp. 127-158.

3. Arthur J. Rolnick and Warren E. Weber, "The Causes of Free Bank Failures: A Detailed Examination," *Journal of Monetary Economics*, October 1984, pp. 267-291; also "New Evidence on the Free Banking Era," *American Economic Review*, December 1983, pp. 1080-91.

4. Comptroller of the Currency, *Annual Report*, 1895, Vol. I, p. 20.

5. Lawrence White points at the Scottish free banking system (1727-1844) as an example of a sounder system. Individual freedom and unlimited banker liability gave rise to a banking system that did not suffer from panic-induced runs. Cf. *Free Banking in Britain: Theory, Experience, and Debate, 1800-1845* (Cambridge: Cambridge University Press, 1984).

6. Adam Smith, *The Wealth of Nations* (New York: The Modern Library, Random House, 1937), p. 339.

7. W. Stark, ed., *Jeremy Bentham's Economic Writings* (New York: Burt Franklin, 1952), Vol. I, pp. 121-207.

8. It was also more profitable and convenient to place a few big loans with a few borrowers than to make many small loans to numerous borrowers. The big city banks in the money centers showered their favors on foreign governments all over the world. Eager to make friends and win allies, the U.S. Government encouraged and guided them every step of the way.

9. Hans F. Sennholz, *Debts and Deficits* (Spring Mills: Libertarian Press, 1987), p. 159 *et seq.*; also *Money and Freedom*, (Spring Mills: Libertarian Press, 1985).

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Where Will It All End?

by Scott C. Matthew

It seems clear that one reason bad ideas catch on—even become law—is that the short-term effects appear to be so good. Without a clear, cool look at the long-range consequences of a proposal, we can be made to fall for all sorts of destructive programs. And so, bit by bit, our freedom and our treasured way of life are surrendered. With every "good deed" proposal we need to ask: "But where will it all end?" Let me give you an example of a court case in which "doing good" in the near term leads to such destructive results.

It's early evening. An elderly man, Mr. Johnston, approaches the front door to his apartment building. This is a high crime area. The building's front porch is dimly lit and the outer door is never locked. As Mr. Johnston is about to enter the building, the door is jerked open by a youth who has been hiding inside. The youth strikes and robs Mr. Johnston. Mr. Johnston brings a lawsuit against Mr. Harris, the landlord, claiming that the lighting and lack of locks were to blame for the assault. The trial judge throws the case out, but the Supreme Court of Michigan allows the case to go on. They find reasonable the idea that the landlord had created conditions to which criminals would be attracted—that Mr. Harris had in effect set a trap for Johnston! (*Johnston* v. *Harris*, 387 Mich. 569)

We all feel very sorry for Mr. Johnston. The assault was a terrible and deplorable act. But we should ask: How do the blame and responsibility for that assault find their way to Mr. Harris, and will placing the blame on him really help all the other Mr. Johnstons in the world? Let's play "do-gooder" and find out.

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First, let's not give Mr. Harris any benefit of the doubt. Let's forget what the words "high crime area" imply about the ability to maintain a building. Let's not consider the possibility that every one of the last ten locks he installed had been broken within days. Let's not ask if the lights were often vandalized by tenants and others, so that he was hardly able to keep the area lit at all. Let's figure he simply didn't make these changes due to their costs. Rotten old Mr. Harris.

So due to *Johnston* v. *Harris*, Mr. Harris is now forced to add new, better locks and lights. We have done some good today, and we can go home, right?

But Mr. Harris cannot go home. He has to worry about what the next court will decide.

And what will the next court find? We already have set the standard that tenants are entitled to security for which they have not paid or been promised. (I say "not paid" because Johnston could have moved to a more expensive building that had these features. And I say "not promised" because Johnston claimed only that these features were inadequate, not that they were left unrepaired. No, this building was just what Mr. Johnston knew it was when he moved in—cheap.)

Where Does It End?

But where will it end? Mr. Harris is now faced with meeting standards which may not be set until after some mishap occurs. As has been noted elsewhere, one will give wide berth when walking near barbed wire, but wider still when walking near it in the dark.

So time passes, and Mr. Harris and other landlords, upon advice of counsel or the force of future court judgments, significantly upgrade their apartments. The wary landlord or future judicial legislator may well deem it the reasonable thing to have bars on all windows, motion detectors on the roof, a key card system at the door, cameras in the hallways and elevator—maybe even a guard on duty. How about alarm buttons in each room wired to the police station? That would be great. And a personal health and safety beeper each tenant could wear? We can expect insurance companies to respond to *Johnston* v. *Harris* by providing in-

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surance at higher rates, and only to those with secure buildings. Now that the courts have set the standard of "not exposing others to foreseeable criminal activities" even if they don't pay for or expect that service, where will it all end? Wherever the exact point is, I believe we can reasonably agree that it won't end until we have much more secure buildings.

We know very well that buildings don't become significantly safer by wishes. Time and money must be spent. A wide range of levels of safety are possible, and the landlord and tenant normally choose the proper level for them through a mysterious and wonderful process called "the market."

But now the market has been fiddled with. We, as do-gooders, will be convinced that the courts have made it better. Still, if Mr. Harris now must make significant payments for security measures, he either will have to increase his rents or receive a lower return on his investment. We can assume that there is relatively free entry into the local market (no government limits on numbers of units) so that he already is making pretty much the minimum acceptable return—if there were lots of money to be made, others would enter the market and drive rents down to that minimum point. So Mr. Harris, with the changes and expenses required, must raise rents.

Now Mr. Harris will enter a somewhat different housing market—one where the apartments are roughly the same as his, but where greater security has been so important to the tenants that they have been willing to spend more of their limited resources for that security. And we would find, if we looked, that such buildings have been readily available to those willing to pay for that service—and if a person won't pay for a service, is it right or efficient to give it to him? As do-gooders, we'll try not to think about that.

As we notice for the first time those buildings similar to Mr. Harris's but with more security and higher rents, we might begin to wonder why Mr. Johnston didn't choose to live in one of those apartments. There seem to be two possibilities. If he didn't desire such security based upon its price—perhaps he is not risk-averse and was willing to take the chance of assault to save the money, just as some choose not to carry insurance—then Mr. Harris gave him just the kind of apartment he wanted. For Mr. Johnston now to demand more than he was willing to pay for is wrong, and this type of claim should not be accepted.

But wait—what if Mr. Johnston were poor and couldn't afford those more expensive apartments? In that case Mr. Harris provided Mr. Johnston an apartment that he could afford, so that he wasn't left out on the street. If in some societal sense we feel that it is morally wrong for Mr. Johnston to have to live in these lesser conditions—in other words, the conditions he can afford—then shouldn't we take that burden upon ourselves? Do we have the right to force Mr. Harris to bear this burden alone? Is his property ours simply to give to others at our whim? But suppose we say, "He's just a greedy landlord, let's make him carry this burden that we profess to feel." Here's how we will do it.

The first step is to rule, in this lawsuit, for Mr. Johnston. Now, without having to have paid for security, he is compensated for its lack. How will Mr. Harris and other landlords respond? They will "upgrade" their apartments as described above (and raise the rents, of course). Now there will be *no* inexpensive apartments for people who choose to do without security measures.

Now all who can afford to pay the higher rents will be forced to live in the more expensive "secure" buildings. Of course, they had been able to afford the rent for these buildings all along and had chosen not to live there, so we have just saved them from themselves. Good for us.

And now all who cannot afford to pay these higher rents will be out on the street. No cheaper apartments will be available. We can fix that, right?

Sure, we can give the poor extra money to pay Mr. Harris's higher rents. The problem is that as do-gooders, we already are spending lots of the public's money on these people, as well as plenty of other things, and the taxpayers just won't stand for any more. Budgets that don't balance are hard on re-election—and higher taxes are harder still. We just can't come up with the money—don't want to either, really—to pay those higher rents we have caused. So?

We can fix it. We can require, through our

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ruling in *Johnston* v. *Harris,* that buildings be improved in terms of safety, but add to that our ace in the hole—rent control. We have it in our power to see a need (more secure buildings), fill that need, and—here's the beauty of it—we can single out a small, unpopular group known as "slumlords" and make *them* pay for it.

I know what you're thinking—what if someone uses words like "due process," "no taking without just compensation," "equal protection," that kind of stuff? We'll do what we always do—we'll just say they don't apply here. Wasn't that simple? So it ends *here,* right?

Maybe not. How do those citizens, whom we are plundering due to their chosen occupation of landlord, react to all this? How would you react? As best you could, I expect. First, you'd make all the required changes if you could afford to, because the power behind government controls is really the power of a gun, and the money isn't worth time in prison. Next, you'd try to get out of this silly business—who needs that kind of hassle? Life's too short, and you never know just what else the do-gooders might have in mind. Now that they have singled out "landlord" as a class ripe for confiscation, why be a landlord? You're smart—you can always do something else. So you'd try to sell your apartments.

And who would want to buy them? Well, just about anyone who likes to be the target of unpredictable persecution, that's who. It seems likely that at some price, probably much below their value before *Johnston* v. *Harris,* someone would take the chance. So your wealth—the difference between the pre-Johnston value of your property and what you sell for—will either be transferred to others (the new buyer, the tenants, the state) or it will be destroyed. Either way, you will be out of luck. Well, you were a slumlord anyway, so we have done a good thing. People will have safer apartments for the same old price, someone else will run them, and you can deliver pizzas. Thank you for your cooperation in this matter. So, is this where it all ends? I wouldn't think so.

Even though the people who owned buildings have either sold them or are eating the losses, there is that small problem known as "the future." The demand for apartments—secure and less secure—continues to rise over time. With a growing population, we'll need a constant supply of new apartments and replacement apartments for old, inefficient buildings. So now, in the face of rent control and a history of persecution, predict the likelihood that adequate resources will be devoted to apartment construction. Pretty high, right?

Actually, what you're likely to have is a virtual absence of construction of just the kind of lower-income apartment you were improving with *Johnston* v. *Harris*. Also, figure on buildings simply being abandoned by their owners as a sinkhole for money they no longer have. And with rents controlled for present tenants, fewer of them will want to move—why give up a "good thing"? As the rental market grows tighter, it will become increasingly difficult for average people to make a move of any kind. People will either become trapped in an inappropriate apartment or won't be able to find a place to live.

Now this "cure" seems somewhat worse than the poor lighting we set out to fix with the *Johnston* v. *Harris* precedent. So will this finally end with an overturning of *Johnston* v. *Harris*—an admission of our mistake? I doubt it, because we have the power to "fix" the housing shortage too! We'll let government build the houses that "the market fails to provide."

Finally, we've arrived at the "just" result *Johnston* v. *Harris* was destined to produce. Here is where it "ends." Remember, landlords offered rental property of a type *we* would not choose to rent, so we forbade its rental. The changes we demanded tended to raise rents, so we forbade the raising. The rent control reduced available housing, so we built the housing. Now, instead of an entire range of options, from the least expensive and least comfortable to the most expensive and comfortable, people have a few, stark choices. There are plenty of very expensive apartments, there are some cheap apartments that are never available for rent, and there is lots of public housing. And it finally ends—with unsafe, poorly maintained, self-respect-draining dumps, used to warehouse the poor in conditions *we* would not choose to rent. *Johnston* v. *Harris* claimed the power to improve the lighting, and left the people in darkness. □

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Who Are the Problem-Solvers?

by James L. Payne

The following is the author's reply to a correspondent who wrote him urging greater use of government to right social wrongs.

Dear Mr. _____:

You write that you are disturbed by the suffering and unfairness you see in society. I am also concerned about many such problems. The question is, how should we go about making the world a better place?

The usual method is to turn to government. For example, you feel that doctors overcharge the poor. Following the political approach, you would contact politicians and ask them to pass a law reducing physicians' fees. I disagree with this approach. First, it is based on coercion, and I don't think coercion is an appropriate remedy for most things. This is a fundamental problem with government action. Governments raise their money through coercion, and impose their will through policemen and soldiers. When we turn to it, we are turning to the sword. Maybe this method can't be avoided for some particularly intractable problems, but forward-looking reformers should hesitate to use it.

A second problem with government is that it relies on bureaucracy: large, complex organizations that are handicapped by self-defeating rules and staffed by less-than-dedicated employees. Bureaucracies cost a lot, often fail to solve problems, and frequently make things worse.

A third problem with government action is that it is insensitive. Government acts through universal prescriptions, laws that apply to everyone. It therefore attempts to regulate situations it does not know anything about. For example, how can anybody claim enough understanding to declare what all doctors should be paid? There are millions of different doctor-patient situations. Unless we study each one, we cannot make a wise and fair determination of the proper prices to be charged. Government will not and cannot study each one; therefore it is bound to impose unfairness and inefficiency in many, many cases.

The alternative method of dealing with social problems is voluntarism—laying aside the use of coercion and depending on individual action, persuasion, and voluntary organization. For example, if you felt physicians were charging too much, your first step would be to look into the matter and find out what doctors' costs were, why they were charging what they were charging, and so on. A next step might be to approach physicians and try to persuade them to charge less. This would engage you directly with the problem, exposing you to the complexities of the issue and perhaps revealing gaps and intolerance in your own views. A third step might be to form a voluntary organization aimed at persuading doctors to charge less, or aimed at helping the poor to pay medical bills.

James L. Payne is a political scientist who is writing a book on the theory and tactics of voluntary methods of reform.

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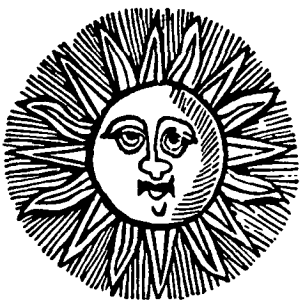
Would such methods work? Not perfectly, by any means. But, depending on the effort *you* put forward, they would be a start. All too often, we treat social issues as just another form of TV entertainment, like Monday Night Football. We sit in our armchairs and expect "them," the people on the screen—quarterbacks, congressmen—to solve the problem. When it comes to making a better society, *we* should get out and work on the problems ourselves.

To some extent, your belief in coercive controls stems from a cynical view of human nature. You declare that "all people are naturally selfish—and will take all that they can get. If you do not believe this, tell me one person who will not do it." I agree with you that selfishness is an element of the human makeup. But so are idealism and the desire to help others. The question is, on which aspect of human nature should we found our philosophy of social improvement?

Shouldn't we stress the positive? Shouldn't we adopt the voluntary methods that assume people will be helpful and sharing toward others? In this way we shall encourage those virtues. The coercive method that assumes people must be forced to help others promotes more selfishness and the ever-greater use of force.

You ask me to show you "one person" who will not "take all that they can get." I can: yourself. You took the trouble to type a three-page, single-spaced letter to me, a stranger, not because it would make you any richer. You were motivated by a deep concern with social problems. And I'll give you another person who is not totally selfish: me. I want to donate $100 to your Society for Low-Income Medical Assistance as soon as you've got it set up. Now that makes two of us, and we're on our way to winning the world.

Sincerely,
Jim Payne



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The Levelers: Libertarian Revolutionaries

by Nick Elliott

Among students of intellectual history, the revolutions in the United States (1776), France (1789), and Russia (1917) attract most interest as being the result and cause of ideas: in America the liberalism of Thomas Paine and the later Federalists, in France the turbulent combination of the liberalism of Voltaire and Montesquieu with the populism of Rousseau, and in Russia the path-breaking implementation of Marxism. Earlier revolutions in the Netherlands and in England are often passed over.

The first English "revolution," following the Civil War of 1641-1646, was a remarkable event for the ideas which led up to it, and which ensued from it. England had been a profoundly individualistic society for centuries before the war. As Alan MacFarlane has shown in *The Origins of English Individualism,* there was little of the tradition of communal ownership and dependency in social relationships of the sort that prevailed in mainland Europe.[1] This individualism made England particularly hospitable to Reformation ideas, and subsequently to liberal principles.

The Reformation was a challenge to the monolithic state churches. It also allowed for each believer to communicate with God in his own way, and so made the church hierarchy redundant. The fragmentation of English religion was aided by the translation and mass production of the Bible, allowing each individual to interpret for himself. Religious radicals, like the Leveler leader John Lilburne, drew upon the stories of Protestant suffering told by John Foxe in his *Book of Martyrs*.

One of the major reasons why civil war erupted was that Charles I and his Archbishop of Canterbury, William Laud, were attempting to impose a uniform high church religion. This policy was inextricably linked to the maintenance of state hegemony. Laud ordained a weekly reading in every church of the Divine Right of Kings—the doctrine that kingship is directly conferred by God. The Church of England had often been used before to control the ideas and behavior of subjects. Those who challenged the authority of the church also threatened the powers of the state. The Earl of Strafford recognized this when he wrote: "These men do but begin with the Church that they might have free access to the state."[2]

Early Liberals

Against this circumstantial background a group developed known as "The Levelers," an informal alliance of agitators and pamphleteers

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who shared the same commitment to liberal principles. The Levelers have been neglected by more recent liberals. Indeed, it has remained a largely unchallenged assumption that they had socialist aspirations.

"Leveler" was a term of abuse, coined by those seeking to exaggerate the threat of their ideas. The only sense in which they were levelers was that they sought an equality of rights in law; they railed against tipping the scales of justice in favor of those with wealth and status. *Yet they explicitly disavowed the charge of favoring the leveling of wealth.* They distanced themselves from the "Diggers" or "True Levelers," who were genuine visionary communitarians.

Against the despotism of the Stuart state the Levelers invoked the concept of natural rights. They drew upon the explication of natural law by Christopher St. Germain in his book *Doctor and Student.*[3] Richard Overton, one of the leading Leveler activists, expressed the principle like this: ". . . by natural birth all men are equally and alike borne to like propriety, liberty and freedom."[4]

Natural rights are a current of thought in the liberal tradition: the theory was later expanded by the philosopher John Locke and was the foundation of the Declaration of Independence. When the Levelers spoke of rights, they assumed them to reside with individuals. They believed that each man should have freedom limited only by regard for the freedom of others.

What went alongside the principle of equal natural rights was the principle of equality in law. In this the Levelers championed the cause of the common man by calling for the law to be applied impartially, without favor to wealth or position. For them, the basis of law was English common law, supplemented by a few statutes which guaranteed individual liberty, such as the Magna Carta and the Petition of Right.

Levelers renounced most of the laws made since the Norman invasion, the corruption of the common law tradition being seen as the result of the "Norman yoke." Sir Edward Coke's *Institutes,* the classic contemporary defense of evolutionary common law, was used as a Leveler handbook. Their approach anticipated the case for evolutionary common law as opposed to statutory law made by later liberals such as David Hume and F. A. Hayek.

It was a principle justified by bitter experience. The Leveler leaders suffered many times from arbitrary arrest and imprisonment, both under the Stuart monarchy and under the post-war republic. In a famous trial in 1649, John Lilburne was indicted for high treason. Lilburne made a strident defense on grounds of principle, and confounded his opponents with procedural delays. He convinced the jury of his innocence and was acquitted. The result was hailed as a great victory; bonfires were lit throughout the capital. Yet, within a year he was tried and convicted by Parliament, acting as judge and jury, and banished to lifelong exile in the Netherlands. He died under sentence, having spent 12 years of his 42-year life as a prisoner of the state.

Lilburne held such a commitment to his legal philosophy that he opposed the trial and execution of Charles I—whom Lilburne had enlisted in the Parliamentary army to dethrone. He believed that if the King were to be tried at all, then it should be before a common law court and jury, the procedure of justice that should be available to every free-born Englishman.

To the Levelers, all men were born free and equal. It followed that government could be legitimate only as a contract among free individuals. Government was justified only as a voluntary combination to provide better protection for property. The cohesion of principles is illustrated by this statement made by Leveler Maximilian Petty at the Putney debates: "For I judge every man is naturally free; and I judge the reason why the men when they are in so great numbers that every man could not give his voice, was that they who were chosen might preserve property; and therefore men agreed to come into some form of government that they might preserve property. . . ."[5]

Monarchs had obligated the allegiance of subjects by claiming that their authority was granted by God. For the Levelers, government was legitimate only if the consent of those under it was secured. In the context of history their belief in representative government was notably advanced; the idea was to become the basis of Western democracies.

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The Response to Despotism

It is an accident of history that the Reformation movement gave rise to ideas which reassessed the relationship of the individual to the state. Luther was shocked when his denouncement of church corruption led to uprisings in Germany, and he called for the rebellion to be crushed without mercy. Calvin was less conservative in accepting the consequences of his doctrinal challenge, but the organization of society which the Calvinists established in Geneva was very closed and restrictive. Neither the state church, nor the Lutherans and Calvinists wanted pluralism in religion, but the unexpected outcome of their conflict was that overall compliance was less easy to enforce.

It was the same with religious toleration in England. Parliament had rebelled against the King not because they objected to uniformity of religion, but because they disliked his own preference for a High Church, and Laud's inclination towards Arminianism. During and after the war neither side held the authority to enforce a doctrine. The result, which neither Parliament nor King sought, was de facto toleration.

Many varieties of faith were being practiced throughout the country. The Levelers themselves differed in religion—Lilburne was a mainstream Puritan until his conversion to Quakerism in later years. William Walwyn was an antinomian, while John Wildman appears to have inclined towards skepticism. The breakdown of conformity in religion made the law an anachronism, and made law enforcement an exercise in futility.

The whole basis of Leveler politics was original in that the foundation wasn't religious doctrine. What they sought was a secular republic, without religious direction from the state. In common with later liberals, they called for the abolition of tithes—the feudal fee charged to pay for the state church. They argued for complete religious toleration—a position that was very radical for the time.

Those in government, before and after the Civil War, felt alternative doctrines to be a threat. Tight controls were maintained over the means of communicating new ideas, by vesting the sole right to print and publish with agents of the state. Under Charles I all printing and publication were controlled by the Stationers Company, which held a legal monopoly.

Lilburne first became famous when, as a young man, he was arrested by officials of the Stationers Company while assisting in the illegal importation of texts from the Netherlands. Tried and convicted before the Star Chamber, he was flogged down the length of Fleet Street, pilloried, and then shackled in a prison cell. Lilburne was freed after two years, in time to enlist with the Parliamentary army. After the war, Parliament was no more willing than the King had been to relinquish control of printing. The Stationers Company was not abolished, but reformed as the "Committee of Examinations." Lilburne soon fell afoul of the Examiners. Locked away at their behest in Newgate prison, he wrote *Englands Birth-Right Justified,* an eloquent piece in which he called for the dissolution of the "insufferable, unjust and tyrannical Monopoly of Printing."

The imposition of an alien prayer-book in Scotland provoked rebellion and led to the First Bishops' War against the Scots in 1639. Charles had not called a Parliament since 1629, and so had scant means to finance the war. The Stuart machinery of government was still largely feudal, and the King had to exploit what expedients he could to find revenue. He revived knighthood fines, imposed fines for the enclosure of forests and common land, increased excise taxes on domestically produced goods, and levied "ship money"—supposedly to finance the navy—upon inland towns. Another expedient was the creation of monopolies—the sale by government of the sole right of manufacture. These expedients bridled the economy and were particularly onerous for small capitalists. They were one of the heavy grievances which led men to take up arms and fight a war against the King.

The most despised monopoly was the Merchant Adventurers Company, which held the sole right for trade in textiles. A booklet popularly received was the anonymous *A Discourse for Free Trade,* which called for the removal of their charter.[6] In the Leveler constitution, trade was to be free from government intervention: "That it shall not be in their power to continue or make any Laws to abridge or hinder any person or persons, from trading or merchandiz-

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THE BETTMANN ARCHIVE

Oliver Cromwell
(1599–1658)

ing into any place beyond the Seas, where any of this Nation are free to Trade.''[7]

Leveler support had its basis in the Parliamentary army, which was uniquely suitable for the spread of radicalism. Ironically, it was Oliver Cromwell, the leader at odds with the Levelers, who had formed the army into a meritocracy. ''Gentlemen'' did not have automatic passage into the officer elite: rank was dependent upon soldiering ability. Ordinary pikemen and musketeers were less divided from the men of status, and began to see themselves as equal in rights to their leaders. The most dedicated fighters were motivated by religious zeal, and some of them were forceful orators, with a captive audience of fellow soldiers.

When the first civil war was won, the victorious army hoped for great things. But, Parliament viewed the standing army as a threat to its power, and as a dangerously radical body of opinion. They ordered the troops to disband, which added to discontent and reinforced Leveler support. When the troops elected their own agitators, the army became a political force.

What followed were the remarkable Putney debates, at which ordinary soldiers sat down with generals—Oliver Cromwell and Henry Ireton—to discuss political principles. The Levelers argued that government can be legitimate only with the consent of the citizens. They contended that there was no basis for excluding poor men from voting, because without having a voice in the making of laws one is not obliged to comply with those laws. Colonel Rainsborough made the case like this: ''. . . for really I think that the poorest he that is in England hath a life to live as the greatest he; and therefore truly, sir, I think it's clear, that every man that is to live under a government ought first by his own consent to put himself under that government.''[8]

They drew up a constitution to be presented and agreed to by the people, distributed in pamphlet form as *An Agreement of the People*. The first Agreement appeared in 1647, and two variations in subsequent years. The Agreements were drawn up by people who had been severely disillusioned by the new regime. They had taken up arms to fight against the arbitrary rule of King Charles I, but now saw Parliament becoming equally despotic.

The Agreements aimed to limit government by dispersing power among separated executive, legislative, and judicial branches. The House of Lords was to be abolished. Certain individual rights were to be protected from government infringement by constitutional guarantee. The obvious parallel here is with the American revolutionaries, who enshrined their concept of natural rights in a constitution which was aimed at restraining government.

The separation of powers was incorporated into the Instrument of Government, Britain's first and only written constitution, drawn up by John Lambert. The Instrument established a division of powers among the Lord Protector, Parliament, and a Council of State. It also guaranteed certain individual liberties against the encroachment of statute law; it guaranteed religious freedom for all but Catholics and followers of ''licentious'' sects. Although the Levelers denounced the Instrument, their ideas had a clear bearing upon its design.

The Leveler Legacy

Many of the books written about the Levelers chart their ''rise and decline'' as a political movement, as if their importance lasted only as long as they had the ear of Oliver Cromwell.

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More significant than the movement and its activists were the ideas which they introduced into public discussion. Their ideas lived on, long beyond their immediate political successes. In 1826, when Thomas Jefferson wrote that "[T]he mass of mankind has not been born with saddles on their backs, nor a favored few booted and spurred, ready to ride them legitimately," he was quoting the words of Leveler Richard Rumbold.[9] Americans founded a republic with a government limited by constitution; they enacted what the Levelers had proposed.

Religious uniformity could never be a serious policy again with the great diversity of faiths that had been flourishing outside of controls. Toleration in law was admitted in 1689, with freedom of worship made permissible for all but Unitarians and Catholics. It was made complete in the nineteenth century with the opening of the political nation to Catholics and Jews. However, state involvement in religion remained an issue of contention for the liberals of later years. Tithes fell into disuse, although they were not formally abolished until 1936.

For the same reason—the obvious futility of the law—censorship ceased to be a sensible undertaking. Improved printing technology had made pamphleteering simpler and cheaper. When in 1644 the poet John Milton published his famous *Areopagitica: A Speech for the Liberty of Unlicensed Printing,* the work was illegally dispersed through the underground London printing network; its spread was a vindication of the very argument contained within. The output of private presses outgrew the resources of the Examiners. In 1645 fewer than 700 new publications were brought into circulation. By 1648 the number had grown to over 1,400. It was in this year that *The Moderate* was first seen, a regular newspaper with Leveler sympathies. In 1695 censorship was allowed to lapse from the statute book, in recognition that it had become ineffective.

After many years of guarded privilege, the Merchant Adventurers government charter was dissolved in 1689, as one of the acts of the Glorious Revolution. It was not until the 1840s that trade was freed from the strictures of the law, as the result of the unrelenting efforts of liberals and humanitarians. Monopolies of one sort or another have persisted, and remain a source of contention in modern times. Leveler support for a wider franchise went unheeded at the time, but was revived to become one of the great liberal campaigns of the nineteenth century. In the positions they took on these questions, the Levelers showed a remarkable anticipation of what became, much later, liberal and progressive opinion.

The overthrow of the monarchy in England removed a structure of government that had existed for centuries. For the first time, a new foundation of government had to be built. Questions of political philosophy took on a new importance.

It was also a time when the monopoly powers of government were not sustained. In their absence, individual liberty was left to prosper. People needed to worry less about offending the law when they practiced their religion or set down an opinion in writing.

For a time, in the postwar upheaval, when they had won support of the army, the Levelers were power-brokers; Cromwell and the army leaders had to consort with the Leveler leaders. Leveler fortunes climbed, and Cromwell remained receptive—but only while he needed the army against Parliament and the Scots.

Remarkable while it lasted, Leveler control over the balance of power could be maintained only so long as there was instability. With the Scots defeated, and Parliament brought into forced obedience, Cromwell could act against the Levelers. Once more, their political activities placed them in danger. They either retired, escaped, or went to prison. In retrospect, however, prison walls did not prevent the advance of their ideas. In subsequent years, England became a freer place in which to live, and this owed something to the efforts of these early libertarians. □

1. Alan MacFarlane, *The Origins of English Individualism* (Oxford: Blackwell, 1979).
2. M. A. Gibb, *John Lilburne the Leveller—A Christian Democrat* (London: Lindsay Drummond, 1947), p. 35.
3. Pauline Gregg, *Free-Born John* (London: Dent, 1986), p. 217.
4. Richard Overton, "An Arrow Against All Tyrants," in *The Levelers in the English Revolution,* G. E. Aylmer, ed. (London: Thames and Hudson, 1975), p. 69.
5. Aylmer, p. 106.
6. Gregg, p. 118.
7. *An Agreement of the People,* in Aylmer, p. 165.
8. Aylmer, p. 100.
9. Christopher Hill, *The Experience of Defeat* (London: Faber and Faber, 1984), p. 37.

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At Whose Expense?

by Philip Smith

A question often overlooked in public policy debates is deceptively simple: "At whose expense?" Let us reflect for a moment on this question and see if, by answering it, we can clarify some current issues.

Take, for example, child care benefits. When described by child care advocates, the issue seems rather innocuous. "Shouldn't working mothers," they ask, "have a right to adequate child care at reasonable cost?" The answer to such a question would seem to be yes, since parents have a right to seek adequate child care wherever and at whatever cost they choose.

But these advocates often go a step farther. They maintain that a parent's right to *seek* child care somehow places a burden on a second party to *provide* it. This second party is usually thought to be the parent's employer, or perhaps the taxpayers. This second party, then, is the answer to the question, "At whose expense?" Immediately another question then comes to mind—why?

Why should an employer be forced to provide child care? Some will argue that unless force is invoked, there won't be enough child care facilities. This is doubtful, since as a general rule the free market works to meet consumer demands. A demand for child care will be met by profit-seeking entrepreneurs, if the market is free from government interference. However, if child care providers are burdened with too many regulations, laws, and taxes, they may not find it worthwhile to stay in business. Furthermore, if entrepreneurs must compete with government-subsidized providers, they may be driven out of business, thereby reducing the options available to parents.

Most important, however, is the fact that employers are people too—and they have a primary right to do as they choose with their own earnings and property. This includes the right to decide whether to offer employee child care. This is truly an "inalienable" right, and takes precedence over other so-called "rights," such as the parent's "right" to child care at the expense of an unwilling second party.

Likewise, imposing the financial burden on the taxpayers still amounts to forcing the individual taxpayer to purchase child care for someone else. Why should you be forced to pay for my child's care? I have no more right to use government to take your money than I do to seize it directly at gunpoint. The only just system is one in which child care is paid for without the threat of coercion. Any other scheme, regardless of the noble intentions of its designers, plunders one person to provide care for someone else's child.

Catastrophic Health Care

As another example, let's consider catastrophic health care for the elderly. We might agree that this is a noble and desirable thing—but again we must ask the question: "At whose expense?" And it is here that the arguments for mandatory health care benefits collapse on ethical grounds. For, as with child care, we dis-

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cover that the burden of financing catastrophic health care is to be placed on an unwilling second party—taxpayers. By what right?

Logically, all people should be free to seek out health insurance from those willing to provide it. As long as the purchasers of a plan give their money willingly, no ethical problems arise. But when one person is forced to fund an insurance plan for another, that person's rights have been violated.

Consider someone who has purchased health insurance for himself and his family. By what right should he be forced to also buy health care for strangers? The answer, of course, is that no one has the right to demand this of him.

The Homeless

As a third example, consider the plight of the homeless. It is a sad but unchanging fact that some people cannot and will not be able to afford a home. Some concerned citizens think the solution is to build housing for the homeless, and perhaps provide food and social services. But once again the question arises: "At whose expense?"

The usual answer is the government. But who pays the government's bills? Clearly you and I do, through taxes taken from us by force. It is the individual taxpayer who finances any such "charity." Advocates of such programs believe themselves empowered to force us to give to their cause, not by persuading us, but by threat of imprisonment under the tax laws.

But what if I have my own favorite charities or causes, and already give to them all that I can? Or what if my neighbor simply doesn't believe he is obligated to build a house for a stranger? By what right can he be forced to give up his money simply because someone else doesn't have enough of his own? The answer, again, is that no such thing should be demanded of him.

But what a cruel state of affairs, some will say. What about those too poor to buy insurance, or child care, or a home? How will they survive?

The answer is simple: private, voluntary charity. Human compassion runs deep, resulting in thousands of charitable organizations that exist solely to help the less fortunate, and which get no government funding. These organizations, unlike the government, are limited to peaceful means of persuasion. They cannot take from us by force; they must convince us that their cause is worthy and their goals are in line with our own. When we ask of their work, "At whose expense?" the answer is: willing donors.

A distinction, then, becomes clear. With the help of the handy litmus question, "At whose expense?" we quickly skip to the core of matters which otherwise might seem a confusing mix of merits and drawbacks.

The answer to the question will be either *willing buyers* or *unwilling victims*. In the first case, those who benefit from a good or service are those who pay for it, or for whom a charity has paid the bill; in the second case an agent, usually government, is employed to rob from some to provide for others in the name of "justice" or "compassion." But America was founded on the principle that ends don't justify means. Justice and compassion are never served by violating the rights of free human beings, even for the noblest causes. □

IDEAS ON LIBERTY

Wilhelm von Humboldt

In proportion as each individual relies upon the helpful vigilance of the State, he learns to abandon to its responsibility the fate and well-being of his fellow-citizens. But the inevitable tendency of such abandonment is to deaden the living force of sympathy, and to render the natural impulse to mutual assistance inactive.

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Of Special Interest

by Lloyd Cohen

In every election campaign of recent memory, the phrase "special interest" has been used pejoratively to describe the programs and appeal of one candidate or another. While the phrase is frequently used, it is never defined.

Although the failure to define a commonly used term sometimes reflects a general understanding of its meaning, the more reasonable conclusion in this case is that it represents and conceals various forms of misunderstanding and misinformation. This imprecise usage is not only a reflection of sloppy thinking but a cause of it as well. It is impossible to think clearly and argue convincingly when using language carelessly and imprecisely.

In an effort to add a measure of intellectual content to popular political discourse, I offer a definition of "special interest" that is clear and concise, permits meaningful distinctions between different kinds of government activity, and is in accord with the moral opprobrium usually attached to the phrase. While what follows may seem like a lesson in elementary economics, it is not. It is, rather, a discussion of political rhetoric and morality, employing economics as a vulgar but powerful tool to facilitate understanding.

Every proposed government project will benefit some and harm others. Any project that would benefit all has either long since been enacted or will be enacted with minimal opposition. On the other hand, those proposals that would harm everyone have no proponents. The only proposals that are of any interest fall in the middle; they help some and hurt others.

The mere fact that a given program would help some and hurt others cannot be sufficient to qualify it as a special interest project. Otherwise the term would lose all power as an analytical tool, since every government program would satisfy the criterion. Yet, both the public and the media seem to use the phrase "special interest" in precisely this fashion. If someone disapproves of a proposed government activity, he simply points out a discrete set of people who will benefit, and proceeds to tar the project with the special interest brush. Thus in the 1984 Presidential campaign, Walter Mondale was accused of favoring projects such as domestic content legislation that would benefit labor unions, while Ronald Reagan, who favored lower marginal tax rates, was portrayed as a tool of moneyed interests.

The special interest critique of proposed government activity is sometimes presented in a slightly more sophisticated form. The critic depicts the group that would benefit from a project as narrowly as possible, and the group that would be injured as broadly as possible. Then the argument is made that because the losers outnumber the winners the project obviously serves only a special interest and therefore should be abandoned.

For example, those who argue for quotas or tariffs on low-priced imported shoes tend to count only foreign producers and importers as those who gain. They ignore consumers who

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benefit from lower prices and those employed in exporting industries who benefit from the increase in trade. (Imports are ultimately paid for with exports.) Similarly, the class injured by shoe imports is expanded beyond those who participate in the domestic shoe industry by presenting an apocalyptic vision of a decline in other sectors of American life which surely must follow in the wake of imported shoes, as for example, "our soldiers could be left without boots to wear in the event of war."

The proper focus of the pejorative phrase, "special interest," must be a narrower and more precise category. The general interest can never be determined by a mere show of hands, whether or not those hands are properly counted. Whatever virtue there may be to democratic hand counting, it isn't synonymous with the general interest.

And as a corollary, the failure of a project to benefit more individuals than it injures can never be a sufficient condition to classify it as serving a special interest. A mere counting of hands would fail to reflect the character and magnitude of the gains and losses to the affected individuals.

For example, those who would gain by the confiscation and general disbursement of the property of a single individual will always outnumber the one who would lose. Nonetheless, it is generally understood that the loss to the owner weighs more heavily on the scales of justice than the gain to the thieves. When the government protects that individual's right to his property, no one refers to that as a special interest activity in any pejorative sense of the term.

I would like to think that the following illustrates a widely shared public moral understanding that defining a political special interest isn't merely a matter of head counting. Near the end of the 1988 campaign, when Michael Dukakis proclaimed that while George Bush represented the interests of Wall Street, Dukakis represented Main Street, he was labeling George Bush as representing a special interest (the wealthy) and declaring that he represented another special interest (the unwealthy). It was, I suppose, Dukakis' hope that a majority of the American people would vote their narrow self-interest. Dukakis' decline in the polls after taking this tack, and his ultimate defeat, were perhaps in part a recognition by the electorate that he was trying to appeal to special interests, and vindication of the principle that a President should represent a general interest rather than anyone's or even everyone's special interest.

General Interest vs. Special Interest

If it is not merely the number of winners versus the number of losers that is the proper criterion for the pejorative phrase "special interest," what criterion is appropriate? In order to distinguish intelligently between special interest and general interest projects, it is necessary to compare what is gained by those who are served by the project with what is lost by those who must pay. But, on what scale are these gains and losses to be compared?

The early utilitarians such as Bentham and Mill believed it was both meaningful and theoretically possible to delve into the souls of the individuals affected and measure pleasure and pain on some sort of scale in order to compare those quantities among individuals. Were we to employ such a standard, it would require that we determine the number of utils (units of pleasure or pain) each affected person would gain or lose from a project, and sum those numbers over all the affected individuals. A special interest project would then be one for which the utils gained by the winners were less than the utils lost by the losers. However, having faith neither in the metaphysical existence of the theoretical concept, utility, nor *a fortiori* in the operationalization of that concept, measuring utils, I prefer the use of a more concrete and accessible measure.

Although the concept of utility suffers several deficiencies, it also has one important virtue. Unlike a mere counting of hands, it gives different weights to different people's interests in a project. Its disabling shortcoming, however, is that the weight it gives, utils, is little more than a theoretical construct, about which modern scholars could argue with the same success as did our apocryphal medieval ancestors over questions such as how many angels could dance on the head of a pin.

As an alternative to utility, social wealth is a

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far more accessible measure. The gain or loss to each individual that would be generated by a proposed project can be measured by his willingness to pay. Summing those gains and losses provides a measure of the effect of a given project on social wealth.

For example, if building a dam would confer a benefit on someone for which he would be willing to pay as much as 100 dollars, then 100 dollars represents the value of the dam to him. If another individual who would be harmed by the project requires a payment of 150 dollars to compensate him for his loss, then 150 dollars represents the cost of the project to that person. A special interest project may be defined as one for which those who oppose the project would require more in dollars to accept it, than those who benefit would pay to enact it. Expressed another way, a general interest project is one for which the winners could compensate the losers for their losses and still retain some winnings, whereas a special interest project is one for which compensation of the losers by the winners would result in the winners joining the camp of the losers.[1]

A Theoretical Tool

The definition of special interest projects that I offer, i.e., projects for which the dollar gain to the winners is less than the dollar loss to the losers, is a theoretical tool. You may still ask of what use is this tool. Armed with it are we any better off than the utilitarians in our effort to operationally distinguish special interest and general interest projects? How can we determine how much someone is willing to pay? Surely we cannot ask him. Once it was known that willingness to pay was the criterion by which government projects would be judged, it would be all too easy for people to lie and claim a willingness to pay enormous sums both for the projects that they favor and to prevent those they oppose. How can we determine their true willingness to pay?

We have at hand an institution to help us in this inquiry—the market. It is through the use of markets that those who gain from the transfer of resources (the winners) can compensate the owners of those resources (the losers). The operation of the market doesn't require coerced transfers of resources by the government. If a product or service is offered on a market, no one need pay more for it than its market price. Therefore we can infer that if someone is unwilling to pay the market price, then the good or service simply is not worth that price to him. Anyone advocating a government project that results in wealth transfers—and of necessity they all do—should be required to explain why, if the transfer is a net benefit, it hasn't already occurred.

The only legitimate answer must involve some notion of market failure. That is, for some reason, although it is of net benefit in that the gain to the winners is larger than the loss to the losers, the market fails to provide this project. The usual reason for such a failure is that it is impossible to exclude from the benefits of the project those who value it, but do not pay for it. Hence, although many would be willing to pay if they had to, since they do not have to in order to get the benefit they will not, and the project will not be financed.

The quintessential example of such a project is national defense. The self-declared pacifist who refuses to pay for national defense claiming that he has no fear of the Soviet Union cannot be excluded from the protection that the rest of us pay for. Since it is in the narrow self-interest of each of us to free-ride on the provision of this collective good, it is likely that we would have a severe under-provision without the coercive power of government to compel a contribution from each of us.

It is out of necessity, but nonetheless with some reluctance, that I acknowledge the validity of a market failure/collective good justification for government-financed projects that provide benefits to some at the expense of others. The existence of collective goods and the efficiency problems they create explain the necessary role of government in providing for such things as the national defense and a system of criminal justice. However, the market failure argument is all too easy to make, and virtually impossible to prove or disprove.

As an extreme example of the difficulties in disposing of alleged market failures, consider the following. The women of America could argue that perfume and dress purchases should be subsidized because when they smell and look

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nice it gives pleasure to others, men in particular. The men would be willing to pay for that pleasure if they had to, but because they cannot be excluded from smelling and seeing women wearing perfume and dresses they will not pay for it. Therefore in order to achieve an efficient level of perfume and dress purchases, the government should use tax dollars to subsidize women's shopping.

This example may seem absurd and trivial, but it isn't clearly erroneous. Every private activity may generate uncompensated benefits and costs to others. There is no simple or obvious way to distinguish the significant and worthy cases—deserving of government action because the benefits of such action will outweigh the costs—from the trivial and unworthy cases. Ultimately such questions must be decided by the exercise of an intelligent, good faith judgment.

Nonetheless, the tools of economics can do much to winnow the wheat from the chaff. The number of projects that could pass a rigorous application of this "willingness to pay" test and be shown not to deserve the title "special interest" is, I believe, very small. The principle of the test is clear. It asks that we weigh equally the dollar costs to those who must pay against the dollar gains to those who receive the benefits. Any other argument that proponents might raise must rest, either explicitly or implicitly, on invidious distinctions in how the welfare of various groups of people should be weighted on our collective scale of values.

A good example of a special interest project is an import restraint. Economic theory has taught for over 150 years that the net cost to the public of import restraints, above and beyond any benefit to the domestic industry, is immense. In the steel industry, for example, the restraints proposed by the United States International Trade Commission in 1984 were estimated by the Commission staff to cost the American people several billion dollars a year, or $300,000 per American steel worker's job "saved." The people who would gain from the constraint were primarily those employed in the steel industry.

Could the steel workers whose jobs are saved pay the rest of us $300,000 for each projected job paying $40,000 a year and still retain some of the gain of protection? Clearly not. Why then did they favor this protection? The answer is simple: special interest government projects *never* require that the winners compensate the losers. It is only because special interest protectionist legislation imposes the greater cost of protection on others that the protected industries support it.

Those readers who view private property as inviolate may wish to treat the "willingness to pay" test I have proposed as a necessary, but not a sufficient condition for approval of a government project. It may strike them as unjust that property rights be nullified for such a seemingly arbitrary reason as whether other people place a higher dollar value on the property.

In defense let me suggest that we normally treat every property right as contingent and limited in just such a fashion. For example, even the most extreme Lockean believer in the sanctity of private property doesn't consider it trespass if I light a match on my property and the photons of light emitted enter your property. It is so obvious that permitting such reciprocal invasions is mutually beneficial that it seems absurd to label it a trespass. But in its metaphysical character it is as much an invasion of another's property as ordinary trespass; the fact that we do not treat it as such is a reflection of an implicit shared understanding that such so-

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cial wealth-maximizing invasions should be permitted.

The "willingness to pay" criterion for defining a special interest project that is rightly deserving of condemnation, and distinguishing it from a general interest project deserving of approval, does not lead to the approval of new or different violations of individuals' property rights. Rather, the test simply provides a theoretical underpinning for those projects that even the most scrupulous property rights adherent would already approve.

A Legal Tool for Limiting Special Interest Projects

One legal tool for appropriately limiting the projects that get government funding is to take seriously the requirements of the eminent domain (takings) clause of the Fifth Amendment, which provides: "nor shall private property be taken for public use, without just compensation."[2] This would require that the government not take anyone's property for purely private purposes and that anyone whose funds or property were taken for a public purpose must receive full compensation. No special interest project can survive the requirement that the losers be fully compensated. If the winners must compensate the losers, they will do so only if the project has a net positive gain.

The primary benefit of rigorously defining special interest is that it provides economic, moral, and political meaning to the world around us. It weighs each person's interest in a project on a uniform and comparable scale. The inefficiency and injustice of special interest projects have the same root. Social wealth is diminished by every special interest project; the pie becomes smaller. The injustice is also readily apparent. Advocating a special interest project implicitly requires giving greater weight to the welfare of some more than of others.

Of course, those who favor such projects will use a variety of rhetorical devices to obfuscate the special interest nature of their proposals. They will describe the outcome of the market as "unfair," or assert that "we cannot expect the market to solve all our problems." The use of such sophisms is meant to conceal the simple truth that those who promote such projects are in effect saying that the losses to those who must pay do not carry the same weight as the gains to those who benefit. The drawing of such invidious distinctions across individuals should be righteously condemned. It can only injure the fabric of a democratic society that rests its sense of nation not on a common race, religion, or culture, but on a political tradition of equality and liberty.

The groups helped by special interest legislation are generally small and well defined in contrast to the larger, more diverse groups of individuals who are hurt. This helps explain why coalitions are formed that lead to the enactment of this legislation, but the explanation of its political origin doesn't define a special interest project, nor is it sufficient to explain the term's pejorative connotation.

It is neither the failure to count heads nor the insular character of the group served that offends our intuitive sense of justice. It is rather the willingness to diminish the combined wealth of all Americans to benefit a narrow group that is so morally odious. An evaluation of a proposed government action employing this definition of the special interest will reveal and clarify its moral, economic, and political character and consequences. □

1. For those with some formal training in economics, I note that this is the Kaldor as contrasted to the Hicks or Scitovsky compensation criteria. See Henderson and Quandt, *Microeconomic Theory* (1958), p. 219.

2. Richard Epstein's excellent book, *Takings: Private Property and the Power of Eminent Domain* (1985), provides a full-blown description and defense of this largely ignored Constitutional doctrine.

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Private Enterprise in Poland

by Barbara Sall

The shop is small, but well organized and has a great location in the center of Krakow's business district in the old, medieval part of town. Kristina, the proprietress, shows me her latest selection of avant-garde pins and earrings, and I hasten to buy several. At the black market exchange rate of 1,400 *zlotys* per $1, I figure the price of an originally designed pin to be about 50 cents.

Kristina is a member of the fairly large, struggling class of private entrepreneurs who have survived decades of Communist rule in Poland, the land of eternal contradictions. Her business, like that of her fellow private shopkeepers all over Poland, is legal and not underground. She garners her supply of costume jewelry and beautiful leather goods directly from artisans and craftsmen. Her prices are a matter of supply and demand, although the pervasive inflation of the Polish currency has had a devastating effect on her customers' ability to buy.

I visited Kristina's shop when I traveled to Poland last June. Hers is one of many private shops that provide a wide variety of goods. They sell explicit caricatures of Communist bureaucrats, posters that ridicule the Communist system and hint at revolution, and paintings of dark and depressing scenes of life under Communism. At the same time, private flower stalls and produce stands are brimming with fresh—and expensive—harvests. These small, private enterprises provide over half the food consumed by Poles, and create islands of entrepreneurial activity in the midst of the numbing regulations of socialism.

Despite over 40 years of Communist rule, Poland has retained an element of private enterprise that surprises many Western visitors. There will be no need to instruct Poles on how to run shops, restaurants, small farms, or even private manufacturing concerns should *perestroika* come to Poland. All these businesses currently exist in Poland, but their ability to prosper is severely hampered by government intervention.

The largest private sector, by far, is in agriculture. Unlike leaders in other Communist countries, Polish Communists lacked the resolve to collectivize the large landowning peasant class. According to Neal Ascherson in his excellent book, *The Polish August* (Viking, 1982), the Polish Communists were unwilling to commit the violence that would have been necessary to force the peasants off their land and into communes. Because of this, Poland has maintained a tradition of private ownership of land unequaled in the Eastern bloc.

Not that private farmers haven't had their difficulties. When scarce investment resources are grudgingly allocated to agriculture, private farmers are way down the list and must try to grow food without access to fertilizers, machinery, or labor. The thousands of large work horses you still see in Poland are the only farm "machinery" most private producers have, and

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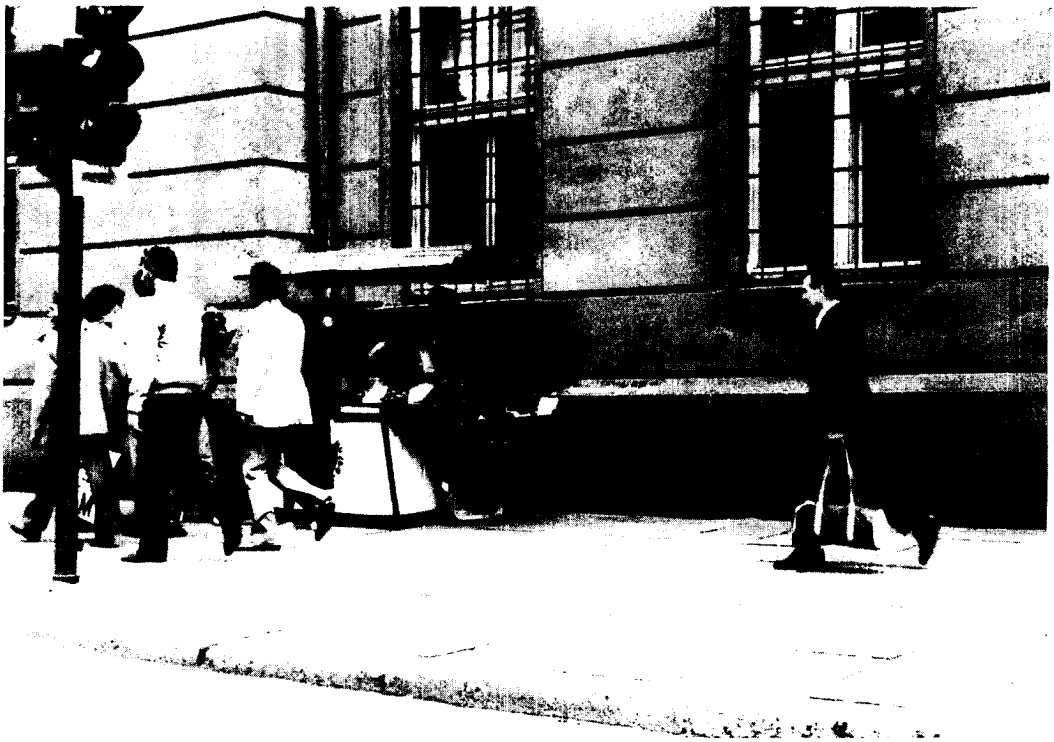

BARBARA SALL

A private vendor sells plump—but expensive—tomatoes on the streets of Krakow.

farmers must recruit extended-family members to help with the harvests.

So, although more than half of Polish food is produced by private farmers, these landowners have very little ability to improve their farming methods. Also, unless they are able to take their own produce to town to sell, they must sell to the government at fixed prices that provide little incentive to expand production.

Private Manufacturers

In addition, Poland has a small, private manufacturing industry. I was fortunate in being able to talk to Marek, a worker in a private chemical plant near Krakow.

To a Pole, the most important part of working for a private company is the pay. Marek earns four times the wages he would if he worked for a comparable state factory or laboratory. On the other hand, there is a great deal of uncertainty for workers in the private sector. If a private company becomes too successful in competing against state-run concerns, the government can remove the licenses required to do business, or refuse to supply raw materials.

Not surprisingly, all this uncertainty is particularly hard on business owners. Although a venture may prove successful, and the first impulse would be to reinvest profits, a sudden cutoff of supplies can result in the loss of invested capital. For that reason, businessmen are reluctant to invest more than they can afford to lose. Most private manufacturing concerns remain small and try to avoid the attention of the Communist bureaucracy. This is not so difficult as a Westerner would assume because of the survival techniques developed by Poles over centuries of invasion and occupation by unfriendly powers.

Business is often conducted only among old friends and in an atmosphere of reciprocity that would puzzle the American capitalist. The most important commodity in Poland is information, and this can be relayed to selected individuals through an amazing network of "friendly" party officials, plant superintendents, and suppliers.

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The need to engage in trades for information and supplies, however, can lead to shady arrangements that involve bribes and supplies taken illegally from state storehouses. Marek deplored the need for such arrangements, but insisted that they often are required to stay in business.

One of the objectives of Solidarity, the banned trade union, has been to put an end to underground deals and bribes—an idea that has a great deal of support among Polish businessmen. They realize that Poles must be free to make trades and buy supplies on world markets in order to develop an extensive and successful private sector. Reliance on the arbitrary whims of government bureaucrats and the black market is no way to run a business.

Although Polish entrepreneurs temper their enthusiasm with large doses of realism, they are excited about two bills currently before the Polish assembly.

The first, and more important, would restructure the present tax system, which is extremely graduated. Any increase in profits is literally taxed out of existence and, in the words of Marek, "It makes it impossible to subsist and not to cheat. Every private businessman is now cheating—paying bribes and maintaining good relations with authorities in order to circumvent the tax codes."

Ideologically it would be very difficult to pass a meaningful tax reform. The idea of a socialist society that allows adequate profits in the private sector is something even democratic socialistic countries such as Sweden have a hard time accepting.

The brightest spot on the horizon concerns removal of some of the many licenses and regulations that are stifling Polish businesses. A list has been drawn up that would virtually exclude many firms, mostly service businesses, from current regulations.

The new bill eliminates most educational requirements, supply restrictions, and wage and price controls. Several of Marek's young friends plan to open day care centers and technical service businesses. They cite the government's need to promote any type of economic growth as the reason behind the new deregulation package, but are quick to point out that without passage of the tax reform bill, deregulation is essentially meaningless. Marek hopes that continued protests about the horrid state of the economy will pressure the government into going ahead with significant tax reform.

I got an indication of how important the private sector is becoming in Poland from Kazimierz Fugiel, a strike leader at the Lenin steelworks in Nowa Huta. Fugiel and all the other members of his strike committee were fired from their jobs at Nowa Huta upon being released from prison, where they had served time for their involvement in the spring 1988 strikes. They were immediately offered jobs in the private sector that would have paid three to four times what they earned in the steelworks.

But idealism is strong in Poland. Fugiel and his fellow strikers refused the private sector offers and pressed the government to let them have their jobs back. All were given their old jobs and continue to represent Solidarity as active members of the strike committee. Still the fact that alternative jobs exist in the private sector creates a new tie between Solidarity labor demands and private enterprise.

More Changes

It is very doubtful that Poland will adopt a fully capitalistic system in the foreseeable future. But, since Solidarity was outlawed in December 1981, many changes have occurred.

Production workers now realize the advantages of dealing with private plant owners. More and more of them don't want to negotiate with government officials who can call out the *zomos* (internal police), instead of listening to the legitimate demands of the workers.

Libertarian societies in Warsaw and Krakow are offering classes in the creation and operation of private firms. The instructors are business owners.

Free market economic theory and practice are being openly taught in major Polish universities. Required courses in Marxist theory are ridiculed by students and faculty alike. Some members of the Polish intelligentsia believe that even the idea of a Communist or socialist society is dead in Poland. Miroslaw Dzielski, chairman of the Krakow Libertarian Industrial Society, told me, "The present leaders of the Communist Party in Poland are not Commu-

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nists. They are the *sons* of Communists."

But they also hold the power in a country where opposition parties are illegal. The question in Poland, I was told several times, is not whether capitalism or socialism works better. Everyone knows that capitalism is the superior economic system. The question is, will those in power relinquish even a small portion of their power; and if they do, will the Russians allow it?

Although many Americans place considerable faith in *glasnost* and *perestroika,* Polish dissidents look upon the new Russian openness as a short-term, unimportant development. The cycles of repression, hopeful change, and then further repression have been all too frequent for dissidents to believe that real change will come to Poland, or to the Soviet Union, as long as Marxism-Leninism holds sway.

And yet, knowing that they can't remove the Communists from power, the dissidents still are willing to take terrible risks in slowly pushing the Communist system as far as they can. They have adopted the techniques of civil disobedience to win concessions such as alternative service for draft resisters and promises to alleviate Poland's horrendous pollution problem.

These victories give them hope, but Poles are well aware that hard-won gains can be taken away overnight. The Polish people exist on a game board with twice as many squares leading back to "START" as those that would advance them to the final elimination of Communism. But to end the game would be to lose everything, and this they refuse to do. They will continue to strike, to face the *zomos,* to go to jail, and to publish their underground works; but the outcome is anything but assured. □

Readers' Forum

To the Editors:

Gary M. Anderson's otherwise excellent article ("Profits from Power: The Soviet Economy as a Mercantilist State," December 1988) is too kind on Soviet-style command economies. It is difficult to imagine a weaker criterion than that an economy should exist and produce something of value to somebody. If we reinstate the usual criteria—namely, economic growth, the degree of consumer satisfaction, technological capacity—these economies are utter failures. I suppose that under the weaker criterion both Vietnam and North Korea have economies, but there isn't too much more to be said for them.

A different conclusion is warranted: whereas in the 1930s and '40s the view that without a price system no economy could develop over time was logically plausible, only developments from the 1950s onward made it possible to observe actual attempts around the world to employ central command as an economizing device. Whereas before it might have been possible to say that most command economies would fail but some would succeed, now it is possible to say definitively, for our time, at least, that no command economy works well. For those in the Soviet Union and elsewhere who have sacrificed much in favor of this vision, this must be a crushing blow. For others who once aspired to such a vision, it is clear that they must choose otherwise. Whereas most social theories, given the nature of this recalcitrant subject matter, remain around forever and it is very rare to see them discredited, we ought to take pleasure in the fact that life has thrown up sufficient empirical experiments for almost everyone to reach the correct conclusion.

AARON WILDAVSKY
University of California,
Berkeley

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Gary Anderson replies:

Professor Wildavsky and I are in complete agreement about his major point, that Soviet-style economies perform relatively poorly. The only dimension in which the Soviet-style economy really excels is in enriching the dictator and others who control the apparatus of the State.

However, I object to the description of the Soviet system as a "command economy." The reality of the Soviet economy is not the abolition of the price system, but massive government intervention which has driven the price system partially underground. The economy remains a market, although a grossly distorted one, because a large, complex economy *must* be a market; coordination requires a price system. Mises was absolutely correct in his assessment that socialism is impossible. The state has imposed tremendous distortions which exploit consumers terrifically, but the market has not been abolished. I believe that the end result is more properly described as "mercantilist" than "socialist."

I also agree with Professor Wildavsky that the consistently poor performance of the Soviet-style economies is gradually forcing many to realize the huge gap between their vision and reality. But we must also recognize that the Soviet-style system remains a source of tremendous profit opportunities for ruthless power-seekers. The worst who rise to the top in such a system receive large benefits, and can be expected to defend these special privileges with the same ruthlessness.

GARY M. ANDERSON
California State University,
Northridge

To the Editors:

I would like to praise *The Freeman* for a most outstanding article which appeared in the February 1989 issue. It is George Leef's "Why is There a Drug Problem?" Outside of Thomas Szasz's writings, Mr. Leef's is the only one I have seen which truly addresses the drug problem. It is a sad tribute to today's currents of non-self-responsibility that absolutely everyone blames drug usage on everything except the drug user himself.

I have long been convinced that the "drug problem" is simply that large numbers of people seem to prefer to anesthetize themselves and run from reality rather than face their problems with a clear mind. Mr. Leef has brilliantly expounded upon this thesis in his article. The popular culture abounds with the mind-set of the drug addict; no wonder so many drop out. Consider "TGIF" and "Miller Time." These and countless other instances point to a popular disdain for work and a wish to escape.

If I may suggest it, I think that Mr. Leef's thesis could be expanded upon in psychological terms. I believe those who turn to drugs do so because they harbor a self-hatred and a profound fear of existence. To the drug user, the world is a terrible, unpredictable, and dangerous place. These psychopathologies have their roots, I hypothesize, in the very same places examined by Mr. Leef in his article: the schooling by the state, welfare policies, and the myriad market interferences which are inherent in the mixed economy. After all, what people fear most is uncertainty and doubt; the loss of personal control causes terror.

Ludwig von Mises has demonstrated that government interference in the market economy generates ever more uncertainty and unpredictability and that this is the harrowing legacy of inflation. If we school our children that there are no principles, that knowledge is impossible, then they will grow up fearing a totally incomprehensible universe and likely will turn to drugs for solace.

Mr. Leef has performed a great service to our drug war-weary nation.

MICHAEL C. HOVEY
Wilmington, Delaware

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A REVIEWER'S NOTEBOOK

Passage to a Human World

by John Chamberlain

In spite of its occasional hop-skip-and-jump presentation and its reliance on abstractions, Max Singer's *Passage to a Human World: The Dynamics of Creating Global Wealth* (Indianapolis: Hudson Institute, 390 pp., $21.95) is a most comforting book to read. Its broad thesis is that the human race, barring the possibility of destruction by collision with a meteor of asteroid size, is never going to suffer from lack of materials necessary to keep it on an onward and upward course.

What kings and barons could have in the Middle Ages, everyone can have tomorrow. The goal of a $3,000-a-year personal income is foreseeable in relatively short order for all save the people in a small minority of Third World states. Even they will be lifted to the $3,000-a-year category in time.

Singer begins by establishing some broad facts about the nature of wealth. We are accustomed to thinking of wealth in terms of gold, oil, growing forests, fertile farmland, and big power plants. We put great stress on the base metals, such as iron and bauxite, or on a steady wood supply. But Singer says that fear that we will run out of crucial metals and forest products is part of a big "edifice of error." There is plenty of iron in the ground and plenty of bauxite for aluminum. The cheap metals cost less than ten cents a pound. Copper is "sort of in the middle," as Singer expresses it. But whether cheap or in the middle, metals make up so small a percentage of modern wealth that they have little effect in determining prices. What is important about modern wealth is that it consists mainly of ideas.

The way to get rich, says Singer, is to learn. He quotes a Mexican cab driver as saying, "Poverty is the result of people not knowing how to do anything." We are more productive than the people of Abraham Lincoln's time because we know more. And what one person knows, another may copy.

Singer attributes the building of the "edifice of error" to a self-constituted elite—a "new class"—that he calls the "University-Oriented Americans." These combine a conviction of intellectual superiority with a generally low morale about their country and the world. The common people, in contradistinction to the UOA elite, have a high morale.

Singer conveniently arranges his thoughts about the UOA and the ordinary citizen in two columns. According to the low-morale ideas in Column A, the world is divided into rich nations and poor nations. World population is growing faster than ever and is out of control. The U.S. is wastefully using a disproportionate share of the world's treasures, and eventually these treasures will be used up. In wasting the resources the U.S. is exploiting poor nations.

Continuing the Column A lament, Singer says the UOA elite considers modern technology to be very dangerous and getting harder to control. People working for profits cannot be trusted. They are not idealists. They don't help

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produce a fairer income distribution or encourage the extension of democracy.

All of the low-morale ideas in Column A, says Singer, are wrong. Actually (see his Column B), the world is moving quickly toward a time when most, if not all, nations will be rich. India and China, even with their huge populations, will be among them. Some nations are moving faster through a transition than others. World population will level off in a way that will not cause harmful crowding. Modern technology is a major reason why dangers to health have decreased so rapidly.

As for profits, people who work for them are just as trustworthy as those working for other motives. Our country is an apt vehicle to express idealism, for it is full of people who care about real results. Many countries take inspiration from us even though they have their own definitions of democracy. So much for Column B.

The pollution problem worries Singer, but only because too many people are percentage-point perfectionists about it. We'll never have skies that are completely free of ozone hazards. But we can do much to inhibit the spread of carbon dioxide. Every tree that is planted helps. To gain perspective, Singer amuses himself by asking, "How clean is your house?" It could be kept cleaner and neater, but maybe you have children. How dangerous is your house? It could have more smoke detectors. How many burglar alarms do you have? Is your electrical wiring properly grounded? Do you have "grab bars" to protect against falling in the bathtub? You do your best to check on these items, and so strengthen your house investment over the years. But you can't spend twenty-odd hours a day on the subject. The point is that our homes are as clean and neat and safe as we choose to make them.

The same is true of the larger environment. The coal supply could stand cleaning up. But if we don't reach absolute perfection, it isn't going to make much difference to our health. Life spans will still increase.

Singer is, however, worried about what he calls sneaky pollutions. One such was the sneaky pollution of scurvy. It was not until scientists had learned things about vitamin C that the British Navy prescribed limes for its sailors, and it was a full forty years before the merchant marine got similar treatment.

Singer's book is written largely in terms of high abstraction. He forces his readers to supply the names of his University-Oriented Americans who contribute to the edifice of error. He does not identify any of his prime culprits. They could be faculties at Stanford or Berkeley or the University of Chicago. He could have been much more graphic if he had simply said "Harvard—or Yale, or Princeton—hates America" and then gone on to name the individual projectors of the hatred.

You won't find anything about the Cold War in the Singer book. Gorbachev is not in his index. Presumably Singer classifies the possibility of destruction from nuclear warfare with the likelihood of disaster from collision with an asteroid. It could happen, but as the Soviets scramble to restore grain production to old Czarist-day levels, it probably won't. □

THE ELECTRIC WINDMILL: AN INADVERTENT AUTOBIOGRAPHY

by Tom Bethell

Regnery Gateway, distributed by Kampmann & Co., 9 E. 40th Street, New York, NY 10016 • 1988 • 294 pages • $17.95 cloth

Reviewed by David M. Stewart

I first read Tom Bethell's essays in *Reason* in the late 1970s. At the time, I admired his clear, fluid style and effortlessly persuasive arguments on economic issues. But in his monthly column for *The American Spectator* in the 1980s, he has become a first-rank critic of contemporary liberalism.

In virtually every political essay Bethell writes, there appears a one-, two-, or three-sentence epitome of some tenet or tendency of liberalism. Sometimes the point made is the major point of the piece, sometimes a brilliant aside or parenthesis. Regardless, Bethell can do to liberalism in a couple dozen words what some writers are unable to do in reams.

The Electric Windmill shows off Bethell the liberal critic in good form. This wasn't, however, Bethell's main intention. In fact, he says in his introduction that "It did strike me as a

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good idea to exclude the numerous policy-oriented articles that I have written over the years."

On a whole, though, the book moves smoothly from "inadvertent autobiography" to, if not policy pieces, political culture pieces. But even in the early essays, concerned with the first several years of his life after arrival in the U.S. from England in 1962, Bethell sprinkles observations and comments on the political culture he observed.

The first essay is partly an account of his first months in the country, partly an account of his contrition for his "wishy-washy liberalism." Bethell says that immediately upon entering the U.S., he "didn't hesitate to suggest various ways in which national customs and folkways could be improved."

If he wasn't immediately surprised at himself for offering his advice—after all, "it was understood that [Americans] were themselves frequently aware of their shortcomings and more than willing to take self-improvement lessons from educated Englishmen"—it eventually came to him "what a lot of nonsense I had been permitted to get away with. . . . after the passage of a few months most British immigrants are to be found pensively staring down at the sidewalk, . . . recalling with embarrassment some vile rudeness and vowing not to let it happen again."

From New England and Virginia, Bethell went to New Orleans, where he became a reporter on the weekly *Vieux Carré Courier*. In the essays about this period he traverses New Orleans jazz and a brilliant jazz collector, William Russell Wagner, the vicissitudes of the New Orleans real estate market, and a Kennedy assassination conspiracy investigation.

From here Bethell moves on to Washington, D.C., spelunking the Beltway culture, exploring what he calls (after Joseph Sobran) the phenomenon of "the Hive"—the liberalism of the intelligentsia.

These pieces aren't dry political treatises, though. On the contrary, they really are principally reportage. He reports on crime from courtrooms and judges' chambers; on abortionists and the pro-life movement from Pennsylvania Avenue; on the Hive's vehicle, the Democratic Party, in San Francisco; on the "loyal opposition," pragmatic, country-club Republicans, in Dallas; on AIDS and "safe sex" at Stanford University.

In each essay, though, Bethell leavens his journalistic observations with compact illuminations on the implications of what he sees or the principles informing the agents' words and deeds. What is most impressive is that he does it on the fly, without sacrificing narrative continuity.

Thus the incident giving the book its title. Bethell reports stumbling onto ACT '79, the "Appropriate Community Technology Fair," a gathering of various energy technology visionaries and bureaucrats. "I decided to take a look at the windmill," he writes, "a large three-bladed propellor on top of a tall tower. The propellor was churning around merrily, although there was little or no wind at ground level. . . . It would save about half your electricity bill—*if* you lived in a windy spot. . . . I asked the gentleman from Vermont why the blades were whirring around so smoothly in such still air. 'It's not working off the wind,' he said. 'It's plugged into the power outlet.' It wasn't demonstrating the production of electricity. Electricity was demonstrating it." □

(Mr. Stewart is an advertising copywriter and a free-lance writer in Rochester Hills, Michigan.)

LIABILITY: THE LEGAL REVOLUTION AND ITS CONSEQUENCES
by Peter W. Huber

Basic Books, 10 E. 53rd Street, New York, NY 10022 • 1988 • 260 pages • $19.95 cloth

Reviewed by George C. Leef

When the solemn judgments of a nation's legal system become the object of jokes and sarcasm, there has to be a serious problem. There may be plenty of discussion over the correctness or wisdom of *Marbury* v. *Madison,* the Legal Tender Cases, *Lochner* v. *New York,* or *Brown* v. *The Board,* but nobody has ever *laughed* at those decisions.

But how about the case in which a contestant

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in a refrigerator-carrying race recovered against the manufacturer of the refrigerator for injury to his back; the case in which a church was sued by the family of a person who had committed suicide under the theory that the church had exacerbated the suicide victim's feelings of guilt and depression; the case in which New York City was held liable for compensatory and punitive damages to the wife of a policeman who shot her and then himself, on the grounds that the city was reckless in requiring officers to carry guns off duty; or the case in which a bank was held liable to the widow of a guard who had been shot when another guard went berserk, for having failed to discover the guard's mental defect? Cases like those cause sensible people to snicker and wonder what this country is coming to.

If you merely want a bandolier of ammunition to use in arguing that our legal system has gotten pretty silly, this book will be of great use. Each of the above cases is mentioned (with legal citations) along with dozens more of the same genre.

But if you want to understand how this lamentable situation of liability for almost any injury of any type whether you caused it or not came about, and what its detrimental effects are, this book is a must. It is an investigation into the intellectual history of the liability revolution, the goals and theories of the "Founders" of this revolution (as Huber refers to a group of legal theorists from the 1950s led by the late William Prosser, who taught law at Hastings College; John Wade, Professor of Law at Vanderbilt University; and California Supreme Court Justice Roger Traynor), the predictable ways in which the main players in our legal system—judges and lawyers—seized upon these theories and used them to further their own ends, and how the effects of the liability revolution are proving harmful to almost everyone. Peter Huber has written one of those rare and wonderful books that help the reader to see how the world really works.

The Founders' principal belief was that if manufacturers were held strictly liable for any accident that befell a consumer of one of their goods, this soon would be reflected in higher prices and more efforts to design safe products. Consumers would, in effect, buy a no-fault insurance policy along with every item they bought, whether the seller wanted to provide this "insurance" or not. The expected result was more coverage for individuals (who were presumed to be too ignorant to purchase insurance on their own) and ever-safer products brought into the market.

Bringing about this revolution, which was never sanctioned by legislation, required destroying contract law between buyers and sellers. Often a sales contract allocated risk between the buyer and seller in a way that the Founders thought improper. The contract might, for example, disclaim the seller's liability for various types of harm which could befall the consumer. As long as such disclaimers had legal standing, the dream of universal no-fault coverage for consumers could not be realized for the simple reason that producers would not voluntarily agree to it.

The Founders' solution was simple and brazen—judges sympathetic to the cause merely declared that liability disclaimers were unenforceable. Contracts were no longer viewed as binding documents of mutual consent, but rather as flypaper that unconscionably trapped the helpless consumer. The struggles of manufacturers and insurers to keep their potential liability within bounds they were willing to accept were useless. Over a period of only some 20 years, the ancient law of contract between buyer and seller was demolished to make way for the Founders' new world of limitless liability.

At the same time that contract law was under a slash and burn attack, tort law was undergoing a massive alteration as well. Having taken accidents out of the realm of contract, the Founders needed to expand tort law to make producers responsible for injuries under virtually all circumstances.

Under traditional tort law, the plaintiff had to demonstrate that the defendant had acted negligently, and that the plaintiff's injury had been caused by that negligence. Furthermore, a number of strong defenses were available to the defendant, such as contributory negligence on the plaintiff's part. This law just wouldn't do.

The Founders therefore also had to rewrite tort law through judicial fiat, which they did. The concept of negligence was redefined to

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mean, roughly, producing anything that isn't perfect.

Today, for example, if an automobile or a vaccine isn't one hundred percent safe—and it can *always* be claimed that the producer could have done something to make the product safer—the producer may be held liable in any case where a person is injured. The judgment may be for tens of millions of dollars, including vast sums of punitive damages.

It will do the company no good to argue that the plaintiff was almost entirely to blame for the misfortune. It will do no good to argue that the causal connection between the product and the injury was extremely tenuous or speculative. The company has money. It must pay.

Has the liability revolution brought about the changes anticipated by the Founders? Has the level of safety risen? Huber shows conclusively that it has not. In fact, he makes a convincing case that the revolution has actually decreased the overall level of safety.

For example, a new medicine might relieve a great amount of distress and save many lives, but losing even one lawsuit to someone who suffered an adverse reaction to the medicine would more than wipe out the producer's entire profit on the item. So the new product isn't sold in the United States.

Or suppose that a manufacturer of a consumer product tries to incorporate every imaginable design change that marginally enhances the safety of the product. The resulting product will be substantially more expensive than otherwise, and that factor may cause people to continue to use their old and far less safe model. Like so many grandiose plans for reforming and perfecting the world, this one backfired.

The real beneficiaries of the revolution in liability? Lawyers, of course. Quite a few of them have gotten rich by getting a "good" jury and winning an enormous judgment against some hapless company. Our present liability law shifts resources away from safety-promoting activities and into litigation. For all but a few big winners in the liability slot machine, this is a bad trade-off.

The solution to the mess created by the liability revolution, Huber argues, is a return to the law of contract. "Neocontract," he calls it—informed consent between buyer and seller as to how the risks inherent in a transaction will be allocated between them.

Revitalizing contract law would permit insurance to function once again in areas where insurers have retreated in the face of limitless potential liability. Insurance, Huber demonstrates, is far better than tort litigation as a means of compensating those who have been injured. Insurance works more quickly, fairly, and with much less overhead than does the tort liability system the Founders have saddled us with. Insurance also doesn't discourage innovation and safety improvements as our current system does. But insurance cannot work in a legal environment in which the chief maxim is "Those who have money must pay as much as the jury says."

In proposing a return to contract, Huber affirms another general principle familiar to readers of *The Freeman*. Not only do plans for perfecting society backfire, but the solution to the problems created by such plans is a return to individual freedom and responsibility. Many of our nation's problems would disappear if public officials would just allow people to make their own choices, rather than playing nanny all the time.

If you fear that a book on the law is going to be a dull read, you need not fear this one. Peter Huber writes with more clarity and wit than I have ever encountered in a work on a legal topic. I wouldn't have thought it possible for a book on law and economics to be so entertaining.

A couple of cavils, if I may. First, the book is not footnoted in the usual fashion with numbers in the text. Therefore, the reader doesn't know whether a case or statement has been footnoted until he looks under the notes for that chapter at the end of the book. If, for example, you wanted the name and citation of the case in which a telephone booth manufacturer had to pay for injuries sustained by someone who was using the booth when a car driven by a drunk smashed into it, you would have to look under the notes for that chapter, only to find out that the information hasn't been provided. The virtue of traditional footnoting is that if you don't see a number, you know that the author is giving you no further information.

My second cavil is the way in which Huber

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alternates between the pronouns "his" and "her." Apparently this style of writing is employed out of a desire to be "non-sexist." But the idea that consistent use of the pronoun "he" is bad or wrong is just plain silly.

Enough caviling. Huber has performed a monumental public service in so clearly and thoroughly analyzing this unfortunate development in the law. Get this book, read it, and then talk about it with every thinking person you know. □

(George C. Leef is Associate Professor of Law and Economics at Northwood Institute, Midland, Michigan, and adjunct scholar with the Mackinac Center.)

BEYOND GOOD INTENTIONS: A BIBLICAL VIEW OF POLITICS
by Doug Bandow

Crossway Books, 9825 W. Roosevelt Road, Westchester, Illinois 60153 • 1988 • 256 pages • $9.95 paperback

Reviewed by Carl Helstrom

Doug Bandow, a syndicated columnist and Senior Fellow at the Cato Institute, has written a book that will be of particular interest to devout Christians. *Beyond Good Intentions* offers an outstanding analysis of political philosophy based upon a cogent exegesis of Scripture from an evangelical perspective. Most of all, however, this book is a strong personal testimony that emphasizes aspects of Christianity and politics that other recent writers have largely ignored.

In the opening pages, Bandow explains how, in his opinion, a Christian should view politics. He shows how the current welfare system has failed, then examines viable alternatives in an excellent section called "The Need for a New Political Paradigm." He concludes that Christianity outweighs any other world view because of its unique emphasis on individual morality. He states: "We live in a fallen world, and there is no answer other than personal redemption through Jesus Christ. All human institutions, including government, have been corrupted by man's fall. . . . Christians cannot stand aloof from politics: quite simply, the stakes are too great." Worldly ideologies and philosophies, Bandow believes, lack this outlook and, therefore, are deficient. These first three chapters are remarkable critiques, displaying Bandow's ability and experience as a policy analyst.

Next Bandow presents several chapters of Biblical exegesis, followed by an examination of important issues concerning us today. He demonstrates ways in which the modern-day Christian, interested and involved in politics, can make sound and prudent decisions. The most important part of the book, however, is the last chapter, "Christian Activism in the Public Square," in which Bandow sums up his views.

A Christian, he claims, should put Christ first. This may seem to be simple common sense, but he repeatedly emphasizes throughout the book the significance of being "Christian" before being "political." Putting politics before principle results in the use of governmental force for religious purposes. A true Christian does not seek to use political power for religious purposes, and is possessed of theological views that are singularly Christian and take precedence over pragmatic policy-making. These are fundamental beliefs, or principles—the Christian's intellectual tools or guidelines for acting in the secular world.

The most significant argument Bandow puts forth is that this personal, Christian attitude necessarily leads to a special view of government and politics, one that emphasizes responsibility, tolerance, and cooperation as the proper political demeanor of the Christian who seeks to live according to the compassionate and righteous example of Christ. Concentrating on this approach serves to safeguard private property and to promote a limited government that acts justly, rightly, and without privilege, according to the rule of law. As Bandow points out, this position allows for peaceful coexistence between Christians and other peoples.

The author admits that Christianity and classical liberalism share many attributes. Here again, however, Bandow reminds us he does not believe that secular philosophies have the necessary moral component to succeed, "resting as they do upon secular premises and ignoring Scriptural principles."

What Bandow is getting at from a theological

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point of view is what Ludwig von Mises wrote of from a secular perspective in his book, *Liberalism,* in which he stated:

> [Classical] liberalism proclaims tolerance for every religious faith and every metaphysical belief, not out of indifference for these "higher" things, but from the conviction that the assurance of peace within society must take precedence over everything and everyone . . . only tolerance can create and preserve the condition of social peace without which humanity must relapse into the barbarism and penury of centuries long past."

Peaceful coexistence is essential to the classical liberal. He believes that the best possible life can be lived within a society that allows for the private ownership of property and the free exchange of ideas and goods, a society that provides for lawful recourse in the event of wrongdoing. Consequently, the classical liberal believes in private property, political liberty, free enterprise, limited government, and the rule of law, but most of all, he believes in peace. He will tolerate another person's views and actions, as long as no one is being harmed.

The Christian is concerned first with salvation, but, according to Bandow, salvation and eternal life with God are individual goals. The way to achieve those goals is through careful attention to Biblical instructions, Christ-like compassion, and right and respectful action. The Christian believes in God as Creator and Designer and in Jesus Christ as His Son who came to redeem us from the bondage of sin. He chooses to seek salvation by accepting Christ, and is commanded by Scripture to do good. Faith in Christ's redemptive power guides the believer during his life on earth. But, as Bandow says, "Jesus instructed His followers to leave the separation of the weeds and wheat up to the Father. . . ." A Christian must be tolerant, yet principled, persuading by good actions and intellectual power. In other words, Christian persuasion should be by peaceful methods, not by political force.

This book is an important work that clarifies the relationship between Christianity and politics. It is a spiritual message for those involved in the political arena who struggle with their faith in Jesus Christ, their commitment to civic service, and the proper way to use political power. And it is a sound political statement, reinforcing the concept of limited government, individual responsibility, private property, free trade, and the rule of law. Most significant, though, *Beyond Good Intentions* is a personal message by a man who believes in what he writes. □

(Mr. Helstrom is a member of the staff of The Foundation for Economic Education.)

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